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Ideas on Liberty

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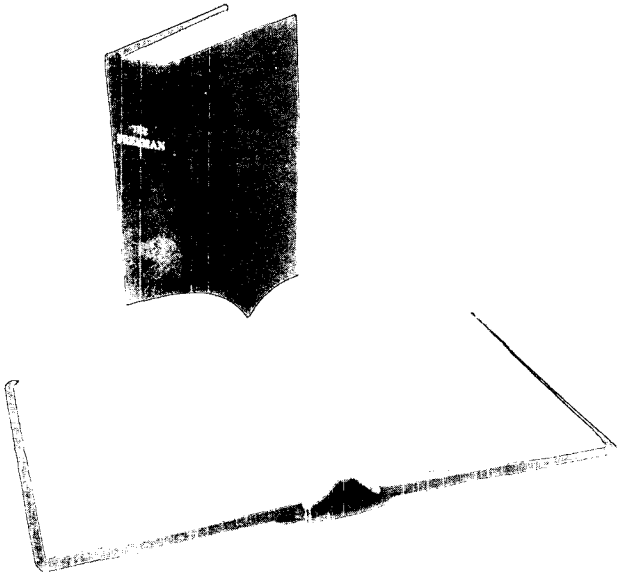

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Rae C. Heiple

Aunt Elsie's Recipe

IF the term "growing old gracefully" ever applied to any particular individual, it sure fits my Aunt Elsie. At 90 she needs a magnifying glass to read the paper, but read the paper she does, as well as live alone and keep house, braid room-size rugs, make needlepoint pictures, refinish furniture, and baby-sit great-grandchildren. She goes to church, takes care in her appearance and always maintains a cheerful disposition. Ask her for a recipe of life and she would tell you to "take pride in your work and let other people be, so they can do the same."

And you know this recipe has more than individual application. It is really the answer also to the economic and political problems that beset the nation and the world. It is the simple solution to the current conflict in the economics profession between micro-economics and macro-economics.

Macro-economics is the economic theory which looks to the statistics of a nation's total economic activity (gross national product, etc.) and holds that policy change designed to alter these total statistical aggregates is the way to determine economic policy and promote economic progress. Micro-economics, in contrast, is the economic theory which says the statistics of total economic activity are valueless as far as providing clues to policy decisions. Micro-economics holds that the individual person and the way his individual activity is influenced

This article is from the 1979 Annual Report of the Abingdon (Illinois) Bank and Trust Company of which Mr. Heiple is President.

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by governmental policy is the explanation to economic progress or the lack of economic progress.

Economists, like doctors, tend to make simple things sound difficult. It may be that "a transverse fracture of the ulna" is medically precise but a simple "broken arm" is often a superior explanation. The conflict between micro vs. macro can also be simplified. The macro believers would have government plan the economy and they would force the individual citizen through regulation and taxation to spend his money and time in ways the planners think desirable, even though the individual would not make the same choice if left to his own desire. Individuals like Karl Marx, Nikolai Lenin, John Maynard Keynes, Kenneth Galbraith and Walter Heller are individuals who could be described as macro-economists.

On the other hand individuals such as Adam Smith, Ludwig von Mises, Friedrich Hayek, and my Aunt Elsie are micro-economists. They believe that each individual person is able to make his own decisions better than some bureaucrat. They believe that each individual, if faced with the choice of working or going hungry, will work, and that no individual as a matter of right has a claim to another person's property. This does not mean charity is precluded. It does mean that giving to another is voluntary and not compulsory. They believe that people, if left alone unhindered by regulation and excessive taxation, will produce more, consume more, save more, and in so doing create a better nation and society for everyone.

My Aunt Elsie, without ever having gone to college or read an economics book, knows human nature, the way life really is, and more about economics than Galbraith, Heller, and Keynes put together. She knows instinctively that inflation, unemployment, excessive taxation, oppressive welfare, shoddy merchandise, a shortage of competent help, and a general feeling of dissatisfaction are all the results of macro-economic policy of regulation and taxation. How much better it would be if our national policy was to let people alone to take care of themselves. The progress, prosperity, and well-being that would flow from this philosophy would stagger the imagination of the supreme optimist.

J. Ollie Edmunds

IDEAS ON LIBERTY

THE time has come for us to re-establish the rights for which we stand—to reassert our inalienable rights to human dignity, self-respect, self-reliance—to be again the kind of people who once made America great.

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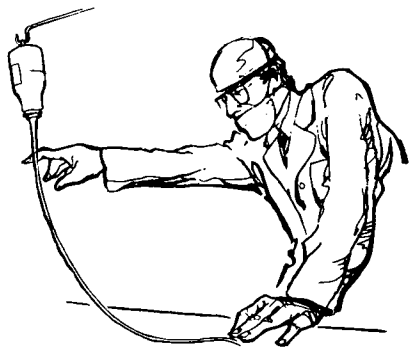
Frank J. Primich

Free Enterprise and Health Care



ANY discussion of free enterprise or of the free market requires a clear definition of these terms. Free refers to freedom of choice, not freedom from cost or responsibility. Free refers to freedom from regulation and restriction, other than those laws necessary to protect individuals from force and fraud. The free market implies the willful exchange of goods or services, either directly or through the intermediate utilization of a stable measure of value, such as money.

This country's economy was originally based upon such a system, and prospered in direct proportion to the extent of adherence to the principles involved. From the very beginning, there were those who realized the advantages to individuals or pressure groups of selected interference with the process which would benefit some, at the expense of others. The miracle of market exchange and pricing is that it tends to bring supply and demand toward a balance. The steadily increasing intervention of government into the process has deprived the free market of the pricing mechanism indispensable to its success. It is the ultimate irony for those responsible for our current dilemma to justify further intervention by claiming that the free market does not work, when in reality it is government which created and continues to intensify the problems.

Inflation, once it is understood, illustrates most clearly how gov-

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ernment creates problems, and then deceitfully uses its access to the media to shift the blame onto the victims of its action. Inflation is purely and simply the expansion of the money supply. By printing worthless paper dollars to pay for deficit spending, previously circulating money is diluted and devalued. Rising prices, rising wages, and the rising cost of living are not the cause of inflation; they are its results. Appeals to "fight inflation" by voluntary or mandatory restraints constitute a smokescreen.

To obtain votes, essential for election and reelection, and ensure the power and benefits to which their offices entitle them, our elected officials, in varying guises, have brought into being innumerable programs for the involuntary transfer of wealth. Since there are more poor than rich, even in our affluent society, it is effective political practice to appeal to the masses with the "soak the rich" approach. The truly rich have the influence and means to avoid most if not all of the burden supposedly aimed at them. As it turns out, the "rich" who are being "soaked" are you and I.

Every additional governmental rule and regulation created in the past fifty years can be readily shown to offer an advantage to some individual or group, at the expense of competitors and the general public. Subsidies, bailouts, wage and price controls, minimum wages, "free" services, and the like further disrupt and destroy what is left of our no longer free market.

When Wealth Is Dissipated

The socialist egalitarian concept of redistribution of wealth requires a wealth to be redistributed. What happens when that wealth, in our case the product of the free market, has been dissipated, and no new wealth created? More "funny money" from the federal printing press will not forestall for very long the inevitable economic collapse and subsequent social chaos.

Health care is a rather vague term that is interpreted in many differing ways. There are some well-documented facts that must be understood in order to intelligently discuss the subject. Of the physical and emotional problems for which people seek aid, about 80 per cent are directly or indirectly self-induced, and as such, with adequate understanding, are amenable to self-correction.

Since it is often easier to have someone else correct the problem through the use of medication, surgery, or any of the prevalent methods of mind control, such services must represent a value to the recipient. Willingness to pay for such services with part of the income from one's productive efforts is in keeping with the free market

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principles. When that service becomes "free at the point of consumption" demand becomes infinite, exceeds supply, and astronomically increases the actual cost of provision.

As a rather simple example of the above, let us assume that you come to me for relief of what we will both eventually agree is a common head cold. You present with a runny nose, a headache, a slight temperature elevation, a cough, and "generalized malaise," which means you feel lousy all over. I now order a complete blood count, and since we have drawn the blood, a battery of blood chemistry tests. A chest X-ray and X-rays of your sinuses come next. Since your headache could be an early symptom of a brain tumor, a C.A.T. scan is ordered. Assuming none of these studies show any significant abnormalities, I might now prescribe a cough medicine, a "strong" pain reliever, a nasal decongestant, and an antibiotic, useless for a cold, but occasionally justified as preventing further complications. Hopefully, I will also suggest that you go home to bed and drink plenty of fluids.

If I were to tell you that there was no charge for all of these services, you might consider me very thorough and efficient. Were I to demand the going rate, you would certainly view me as a charlatan. Am I any less a charlatan because you fail to realize that ultimately you or your neighbor will pay that bill through higher taxes or higher insurance premiums?

Irresponsible Promises

Medicare and Medicaid were proposed to cost a fraction of their present expense. Part of the problem was the unrealistic projection by would-be experts who had little understanding of the unlimited demand that arises for anything presented as free of charge. A far greater responsibility should be borne by those who were aware of this fact, but for political benefit gave their support, confident that they could eventually shift the blame for failure to the would-be providers of these services. This in turn would justify additional expenditures and further intrusive regulations by a bigger bureaucracy to control the scapegoats. When this predictably failed, still another round of the same would maintain the upward spiral of cost, while assuring the comparable degree of deterioration in the quality of care.

We are well into the scenario I have just outlined, and the oft-repeated accusations against the scapegoat providers are gradually gaining credibility through mere repetition. I have long contended that physicians, and health providers in general, are made up of a relatively small percentage of truly dedicated and highly ethical indi-

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viduals, an equally small but far more evident number of rip-off artists, with the vast majority spread between the two extremes. Unfortunately, as the realities of the situation become more obvious, those near the lower end of that middle group are opting to become dishonest in order to survive in a dishonest system.

These defectors have discovered that in our contemporary society crime not only pays, it pays well. Faced with unrealistically low remuneration for their services, they have used the easy expedient of additional short unnecessary visits and rarely or barely indicated tests and procedures to resolve the inequity. I do not offer this observation as any justification for their actions but simply as a sad commentary on the results one might easily have predicted for these pie-in-the-sky programs.

We hear much about the high cost of health care, which I freely admit is exorbitant. At present, hospitals are under attack with threats of "mandatory cost containment," a concept as anti-free market and short-sighted as one will find. It is another name for the old wage and price control approach. Even the "liberal" economists have, after observing repeated failures of such programs, conceded that they do not work. There is a limited short-run effect that has appeared politically advantageous, but is impossible to sustain. The best description is to liken the process to locking the lid on a boiling pot. Unless you put the fire out, an explosion is inevitable.

High Hospital Costs

Let me give you my analysis of the causes of high hospital costs. These opinions are not something I dreamed up, but the result of my study of those free market economists whose advice has been so much scorned and suppressed by "liberal" politicians and communications media.

1. *Inflation.* Government caused, it is reflected in the higher prices of supplies, labor, and capital improvements.

2. *Compliance with governmental regulations.* Recent estimates of the cost of compliance with those regulations not directly related to patient care in New York range between $45 and $50 per patient day.

3. *Minimum wage laws.* This greatest single cause of unemployment strikes particularly hard at hospitals. The biggest single item in any hospital budget is payroll. While most of us agree that nurses are underpaid, the relegation of increasing numbers of them to paperwork may reopen that old argument. Rules, regulations, and attempts at giving adequate service necessitate the employment of many individuals not directly involved in

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patient care. Many of these have menial jobs with productivity that in the free market would not merit the $3.10 hourly minimum wage. Mandatory employer contributions to social security, unemployment and disability funds raise this hourly cost excluding "fringe benefits" to between $5 and $6. Do you still wonder where your money is going?

4. *Excess beds.* This frequently distorted factor, originally created by governmental promises and subsidies, would be readily correctable, were it not for governmental regulations and job security considerations.

These four major factors are government caused, and can only be made worse by government takeover. Removal of government involvement would resolve, or at least vastly improve, the problem in each category.

5. *Cost of technological advances.* To some degree, this is a necessary price for progress. Injudicious exploitation can only be controlled by individual responsibility on the part of both doctors and patients. Declaring a moratorium on progress is a poor solution.

6. *Overutilization and unnecessary surgery.* Both abuses exist, the degree depending upon definition. The cause is shared by mercenary providers and irresponsible patients. Since this subject is so often distorted in its presentation, it deserves discussion.

Let me start by not merely conceding, but deploring the fact that there are far too many doctors who misdiagnose, or worse yet, misrepresent in order to perform what I call "remunerative surgery." I am not advocating the abandonment of fees. The term "remunerative surgery" is reserved for those cases where the sole indication for the operation is the fee. In this same category are those physicians who hospitalize patients for non-surgical conditions when hospitalization is not essential to the treatment. The current policy of third party payers which rejects claims for the same services if performed on an out-patient basis is a major contributing factor. These same doctors are often guilty of extending hospital stays for no better reason than the prospect of payment for additional daily token visits.

In most better hospitals, these practices are kept to a minimum by means of the long-standing peer review process. This requires but a few of the staff members to be willing to expend the time and effort needed to police the activities of all the staff members through the appropriate review committees. Sadly, there are innumerable obstacles, legal and otherwise, to the exposure and control of the guilty. However, persistence and what can only be described as harassment have proved

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effective. Real punishments are rare, but the deterrent effect is indisputable.

Real Demand Stems from the Individual Consumer

Probably the most vital factor in the health care equation is the consumer. Since it is the demand for services that governs the amount, quality, and cost of provision, let's examine the word *demand*. As used in the law of supply and demand it represents a desire or need for a product or service. In reference to a hold-up man, tax collector, or the holder of a promissory note, it is a more forceful term. The respect of such demands, backed by law or force, or both, becomes mandatory.

As with so many political perversions of our language and our constitution and bill of rights, you may be surprised to learn that there is no such thing as a "right to health care." Nor is there a "right to food," a "right to clothing," a "right to shelter" or any of the other wrong rights being advocated. Where health care is concerned, the unconstitutional application of majority rule to provide benefits to almost everyone at the expense of relatively few gains wide acceptance. In the free market, on the other hand, one gets what one pays for. As such, responsibility for the nature and degree of demand rests with the individual consumer.

Remember that individual responsibility, or lack of it, is the determining factor in the preservation or loss of individual freedom. If an individual desires to live his life as he chooses, so long as he does not infringe upon the equal rights of others, he must accept full responsibility for himself. If good health care were freely available, we could then afford the waste of government allocation and control. But because it is so scarce and costly is precisely the reason why concerned individuals should rely upon the efficient market process of bringing supply and demand toward balance.

My solution to the problem of medical indigency is, as you might guess, the same as my solution to the problem of health care in general: a return to the free market throughout our economy. Freed of governmental restrictions, we would rapidly approach full employment. Without the huge involuntary plans of wealth-sharing, we would be financially able to exercise our well-established charitable instinct to help the incapacitated and the truly needy.

Freed of government harassment, we might again exercise our inalienable rights of life, liberty, and the pursuit of happiness.

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Morris Shumiatcher

The Double-Headed Coin of Rights and Duties

A COUNTRY in which everybody demands his rights is like a house in which everyone is shouting for his supper with no one in the kitchen to cook it.

The International Year of the Child spawned a rash of rights that look much like the pimples of puberty on the faces of the pupils of at least one Canadian public school.

The object of the exercise was to create a "tribute to the International Year of the Child that would be everlasting." Here are some of the debts said to be owed to children by teachers, parents and others—all framed and enshrined on a prominent wall in the M. J. Coldwell School in Regina.

"The Right to an Education"

There is scarcely a child of the past half a century who has not had this right served up to him on heaping platters. Indeed for years, truancy laws have served to remind children and their parents that the doors of the schoolhouse are open wide to all, and that they not only have the right to enter, but the duty to learn. No one but they themselves can ever do that. What needs restating is not the *right* to an education, but the *duty* of every child to learn. Whatever pedagogues may claim, there is no such thing as teaching; there is only such a thing as learning. If the aery-fairy Year of the Child is to lead the young into the real world where he may become a mature adult, he must meet duty face to face. He must discover his first duty is to learn, because to be ignorant is a shameful state. Without that duty, all of the education in the world will drain from his brain like rain off a duck.

Dr. Shumiatcher is a prominent lawyer in Regina, Saskatchewan, well known as a lecturer, writer, and defender of freedom.

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"The Right to Develop His Potential to the Fullest"

Everyone has the right to develop his muscles so that he can lift a hundred and fifty pounds, the right to strengthen his brain so he can understand Einstein's mass-energy theory, the right to stretch his legs so he can run the four-minute mile like Bannister, and the right to acquire the skill to play the violin like Yehudi Menuhin. But what do those rights mean until the individual recognizes that the responsibility of improving his body and his mind, his legs and his fingers are his alone? Nothing can happen to realize any of those wonderful results until the individual applies effort and hard work to achieve what he genuinely wants. The right to develop without the will to grow is a seed that is neither planted nor cultivated, but is cast on a concrete road and dries and disintegrates for lack of nutriment, and so is lost to the world at the end of the day.

"The Right to Be a Useful Member of Society"

Every community hungers for competent, educated and energetic people to take on the responsibilities of caring for its parks and public places, of beautifying the dumps, of producing clear cold water for the dwellers of the tenements, of bringing light to the slums and letting pure air into the caverns of the city. Everyone has a right to improve himself and his community. The smallest child can keep his yard and neighborhood clean, can refrain from heaving rocks through windows and drag-racing on main street and breaking beer bottles on the sidewalk. He will then become a useful member of society. It is not a "right" to adopt a life style that is civilized, it is a duty. Every new generation that is born into this world is a fresh barbarian invasion that will seize and grasp and demand and consume everything in sight, until it is civilized into understanding its duty to give and yield and respond and produce.

"The Right to Be Raised in the Spirit of Peace, Understanding, Cooperation and Friendship"

Peace, understanding, cooperation, friendship. These are not gifts that fall from heaven to those who sit idly by awaiting their blessings. Peace is not a right: it is a duty, the burden of which men and women of good will must carry upon their shoulders knowing it to be a treasure beyond all measure. Cooperation is not conduct that one may demand of another; it is a quality of the human state that one can give and, in offering it, learn that it is returned like the smile in a girl's eyes or a handshake when the fin-

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gers linger long, carving the memory of a moment into the lines of your hand and heart. Friendship is not a bank account established by a stranger to pick your lucky ticket in a lottery. It is a bundle of duties and obligations that may bud and blossom into a rose for those you love, that one day may be returned to you with all of its fragrance gone, but shorn of every thorn.

"The Right to Affection, Love and Understanding from Teachers and Fellow Students"

To consider "affection and love" our right is to misunderstand the individual's humanity. Love is not taken like an apple from a tree, but only given. And understanding is not a right, but a pilgrimage on a long and tortuous road that has no end. No one can demand affection, no one can elicit love—not even with the most complex machine man's ingenuity can create. To claim love as a right is as foolish as to demand that the rain cease to fall upon you. The greater the demand, the greater will be your disappointment.

The simple fact of life is that there are no rights that bloom in the human state. There are only obligations; it is they that are the seeds which, planted and laboriously nurtured, may one day blossom into rights.

Bills of Human Rights and laws that pretend unconditionally to distribute "rights" are illusions like the commercials that advertise free money, or effortless muscle building, fat melting or wrinkle routing. They exist only in one's imagination.

To my young friends so preoccupied with the *gimmies* that masquerade as rights, may I suggest this: If you hope to enjoy the *right* to a hot bowl of soup at lunch time, you will be doomed to disappointment and will never have it unless someone assumes the duty of finding the meat and vegetables to cook it, and takes the time and trouble in the kitchen to produce it, and with affection (or out of a sense of duty) places that bowl of soup on a plate on the table for you to eat and enjoy. Without duty there is no soup. And no one has a right to expect to enjoy soup unless he also is prepared to perform his duty to cook it!

You may think you have a right to walk down the street at night in safety. But simply to declare that such a right exists will give you neither safety nor comfort. It is only if I, and every other citizen assume the duty to give you free passage and not molest you, that you can walk in safety on the city street you claim to be your own.

A "right" is a coin with only one side. Unless it has another side on which the word "duty" appears, the coin is as worthless as a Czarist ruble. You may have the right to pass

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it on to buy an apple, but if your grocer thinks it worthless, he has no obligation to accept it for his fruit, and you will go hungry. How valuable, then, is your one-sided coin that reads "rights," without the other side that spells duties?

Have you ever thought that the Ten Commandments, older than the hills of Galilee and as durable as Mount Sinai, speak not a single word about human rights? They do not suggest you have a right to God's love, but rather, that you have a duty to love your God.

They do not create a right to make demands upon your parents, but they speak of the duty of every child to love and cherish and honor his mother and father: the duty to care for them as they grow old and feeble.

The United Nations Declaration of Human Rights was written in 1948 in the belief it would make us all more mindful of our duty to act justly toward our neighbors, whatever their color, creed or origin. Ever since, we have heard more and more about human rights, and less and less about personal duties. It was once considered enough for legislatures to declare, "let light abound that right be found." But laws can no more grant the smallest right to Peter without imposing a corresponding duty on Paul. If Peter is to be a pumpkin eater, Paul must be a pumpkin picker.

Let us then place alongside the Declaration of the Rights of the Children of the M. J. Coldwell School, a Proclamation of the Duties of the young to themselves, their parents and teachers, their friends and their neighbors. And let us not forget how large a part simple courtesy and good manners make up the basket of our duties.

IDEAS ON LIBERTY

Character Must Be Earned

WHEN a man is on his own, an individual responsible for himself, he must earn a character—a personal character that is perhaps his first necessity. Others may then learn and imitate his qualities and capabilities. In a planned society he has no need of a character, for no such thing is wanted. No national or universal plan can afford to take the least notice of his personal character.

As an individual responsible for himself, a man must also acquire credit. Others must be convinced that he is credit-worthy; that he can be trusted; that what he undertakes he will perform to the limits of his ability. But when he is planned, nothing so troublesome is in the least necessary.

SIR ERNEST BENN, "Rights for Robots"

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Clarence B. Carson

HEALTH CARE: Cross Questions and Crooked Answers

At the sometimes innocent parties I went to when I was an adolescent we occasionally played a game called "Cross Questions and Crooked Answers." Boys were lined up on one side and girls on the other. Each boy was handed a slip of paper on which a question was written. Each girl got one with an answer. When they had been written, each question had an appropriate answer to it. But they were passed out randomly so that, hopefully, the questions no longer matched the answers when they were read. If all went well, there would be a series of malaprops, inanities, and ribaldries.

A variation of Cross Questions and Crooked Answers has now achieved adult status. Political involvement in medicine has made it commonplace without our being aware of it. Let us take a statement first. It is usually worded something like this: "Every American should have quality medical care." Now, the question, "Don't you want the best quality medical care possible?" It is tempting to treat this as a straight question, and to make what appears to be the only reasonable answer. Namely, "Of course, I want the best quality medical care possible." From that point on the discussion degenerates into a debate as to which is the best possible system for providing quality medical care. It may not be a futile debate, but it is apt to be inconclusive because the

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Dr. Carson has written and taught extensively, specializing in American intellectual history. The most recent of his several books, *World in the Grip of an Idea*, is available at $14.95 from The Foundation for Economic Education, Inc., Irvington-on-Hudson, New York 10533.

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best points have been conceded by the answer given to the question.

This is so because "Don't you want the best medical care possible?" is a Cross Question. It is a Cross Question which will most likely elicit a Crooked Answer. Indeed, it is what one of my professors in graduate school called a false question. A false question is one which can only be answered by giving an answer that will be in some part wrong, regardless of what angle you take on it.

To illustrate, let me give the opposite answer to the question, a somewhat perverse answer, if you like. "No, I do not want the best possible medical care. In fact, I do not *want* medical care at all. Medical care is not something one drools over, like a steak, the best cut of which everyone should have. I do not long for the ministrations of physicians or for the comforts of a hospital bed. Indeed, my preferences run in the opposite direction, to have as little truck with any of these as possible."

The answer is evasive, of course, but it is evasion with a point. I want the question reworded. The first order of business is not the quality of medical care; medical care is only a means, not an end. The quality of life is my main concern, not the quality of medical care. The question might be rephrased this way: What do you want from life to which medical care (and its quality presumably) is directly related? Now that is a straight question which can be given a straight answer.

My answer would go something like this. I want the use of my faculties with as little impairment as possible. I want to see, hear, smell, feel, walk, taste, talk, and use my limbs well so that I can function normally. Why? So that I can look after myself. So that I can manage my own affairs. So that I can be independent in order to fulfill my purpose as a man. In short, my concern with medical care is as an adjunct to my personal independence.

Restore the Patient

Contemporary medical practice has this as its primary aim. Its aim is to maintain or restore the independence of the individual, to get him up and walking again, to get him to looking after his bodily needs, to get him to exercising his faculties, and so on. The desired goal is dismissal of the patient and a minimal dependence on drugs. In short, good medical practice requires that the patient be restored to independent status as quickly as in the judgment of the attending physician he is ready for it.

Medical care cannot correctly be considered in a vacuum. When we do so we can only ask Cross Questions and get Crooked Answers about it. It is part of the larger corpus of life itself, and ordinarily a subordinate

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part. In the context of the statements made above, the aim of medical care—the maintaining and restoring of personal independence—is part of the broader aim of personal independence for individuals. Whatever impairs the independence of the individual will tend to be detrimental to the aims of medicine.

Government intervention is on a collision course with the best in contemporary medical practice. This may be clear to some when the matter is considered only from the angle of quality medical care, but it should be apparent to all when it is looked at from the broader angle of the independence of individuals. The purpose of medicine is to foster individual independence; the impact of government intervention is to reduce the independence of the individual and make him dependent on government. It is this case that is conceded or ignored when we focus exclusively on quality of medical care.

Perpetual Dependence

Here is a story which illustrates how government intervention tends to thwart the broader purpose of medicine by establishing perpetual dependencies. It is a true story. It is even a kind of horror story when its implications are contemplated. Here it is.

Several years ago I was living and working in Pennsylvania. My father lived in Alabama and was, when most of these events transpired, in a small hospital in Georgia. One evening, I got a call from my sister who told me that our father was very ill and that the doctor had said the family should be notified. Presumably, he was dying. It would not have been surprising, for he was 88 years old and had not been in good health for some time.

We flew the next day to see him. Two aspects of his condition stood out. One was that he had lost weight—in fact, was not far from being emaciated. The other was that he had been having hallucinations. He was conscious most of the time, knew everyone, and was lucid enough in conversation. Except, it soon became clear to me that when he was at his best he still believed in the reality of what he had seen when he was hallucinating. I spent the better part of a day at his bedside, and he seemed to want to talk about his hallucinations. (He did not call them that, of course, they were to him unpleasant things he had actually experienced.)

When I talked to the attending physician—in fact, he was the only doctor associated with the hospital—he was rather vague. His prognosis was that my father might die at any time, or he might live for a while longer. Beyond that, he only observed that it was good for me to visit with my father. I began to

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learn some interesting, and disturbing, things about the hospital, too. It was preternaturally quiet, and they tried to keep it that way. There were few visitors, except those who came to see my father. One did not encounter patients in the hallways, though there were several nurses about. On inquiry, I was told that the patients were all old and bedridden.

In fact, it was not what I would call a hosptial; it was a nursing home with a physician and nurses in attendance, and hospital rates were being charged. Whether all the patients were being given tranquilizers, I do not know, but my father was. It was a place where old people on Medicare were brought to die.

We moved my father to another hospital as soon as we could get an ambulance. I later talked with the new physician who had examined him there. He indicated that it was too soon to make a firm prognosis but that the vital signs were all good. My father was in no imminent danger, as far as could be determined. I asked if the medication he had been given would be continued. No, the doctor said, for the time, at least, he would be taken off all drugs. What about diet, I asked. My father could eat anything he wanted, he said, and would be encouraged to eat. (He had been on a restricted diet under the other physician.)

The atmosphere in this hospital was quite different from the other one. It was alive. Patients were clearly there only temporarily for healing, hopefully, and recuperation. I was there once when the physician came in to see my father. He talked to him about going home, about his getting up from the bed, and about going hunting, which was one of my father's favorite activities. Subtly, he was getting my father to think of getting well and inviting him back to life.

Within a day a considerable change had occurred in my father. He was more cheerful; he had begun to eat, and was beginning to do things for himself. Within a short time, he returned home to take up the normal course of his life. He lived for several years after these events, and most of the time he was up and about. The memory of the hallucinations only faded slowly, but otherwise he was better than he had been for some time.

A Cure that Kills

From what illness was my father suffering? It is reasonable to conclude, *ex post facto,* that he was suffering most directly from malnutrition and drug-induced hallucinations. Add to that the fear that arises from helplessness when one suspects he is terminally ill and is waited on hand and foot. The malnutrition was no doubt a conse-

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quence of the restricted diet plus an habitual finickiness about eating. There may have been some justification for the restricted diet, for he had arteriosclerosis and complained from time to time of angina attacks, though they were not usually severe. As for the tranquilizers, I can only speculate as to why they were prescribed. Father was inclined to be a noisy patient, groaning and making some loud sound when a pain struck him. The tranquilizers were supposed to keep him quiet, though they did not succeed in doing so.

More broadly, he was a victim of the Dependency Syndrome induced by government involvement in medicine. My father had become dependent on government to pay for at least a portion of his medical care. The physician had become dependent upon government for much, or most, of his income. This arrangement is conducive to the establishing of a relation of continual dependence upon medical care in the patient. For quite a while before my father had been confined in that small hospital he had gone regularly to that physician's office for injections. There was no prospect that he would get well or be dismissed. After each brief session with the physician, he was let go with these words, "See you again in two weeks."

So far as a layman may judge of such matters, that man had earlier been a competent physician. He had been a skilled surgeon with a good practice. I knew him some two decades before the events related above, and at that time he was interested in healing his patients, getting them back on their feet, and dismissing them from his care as soon as the situation warranted it. The eventual independence of his patients was his goal.

In the interval, he had changed. He was no longer practicing medicine. He was practicing Medicare. He had bought the government's line. Government had proclaimed, by its actions, that medical care was a good for the aged. It was a good of such importance that it should be made readily available at the taxpayer's expense. If medical care is such a good, is it not reasonable to conclude that the aged should continually receive it? And there could be no doubt that he was dispensing a considerable amount of medical care, or something that had the look of it.

Too Much Care

But medical care is not a good. It is, if I may so phrase it, a "bad." Drugs can have disastrous side effects. Diets can starve. Lying in bed, even in a hospital, can have debilitating effects. Dependency on doctors, nurses, and medicines is unwholesome. True, a skillful physician, with sound and indepen-

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dent judgment, attentive to the condition of his patients, can use medicine, diets, hospitals, and all the other paraphernalia of modern medical practice to good effect. This tells us, too, what is good: it is the skill, the sound judgment, the independence, and the careful attention. That is the good for which we should pay, and, having had to pay, we are reminded that it is scarce and should be used only when there is some need.

The quality of medical care is a secondary issue. What is at issue primarily in the thrust of government into medicine is individual independence. The great aim of medical practice is *not* to provide medical care; it is to restore patients to whatever status of independence is possible. The best medicine is sometimes no medicine at all. However, that decision should not be made by dispensers of medical care but by medical doctors of *independent* judgment. Government intervention reduces the independence of physicians and of the population generally. A physician may still heal a particular disease, but he cannot restore the full independence of a man who has become deeply dependent on government. The doctor in the small hospital was not on a collision course with government; he had accepted the dependent status of those whom he treated and was bent on perpetuating it.

It is not my purpose here, however, to dismiss the question of quality. Once it has been placed in the broader context to which it belongs—the quality of life—it can be properly considered. No doubt, most people would like to have a high quality of treatment when they stand in need of medical attention. Thus, some observations on the impact of government intervention on the quality of medicine are now in order.

Why Intervention Fails

The tendency of government intervention is to increase the quantity and reduce the quality. It does so for three reasons mainly.

First, by removing or reducing the cost factor in medical treatment, it increases the demand for it. Given the same number of medical personnel, the result is longer waits in doctor's offices, less attention per patient in hospitals, and a dilution of the quality of what is received.

Second, when government prescribes standards of treatment they are, and must be, *minimum* standards. To put it another way, whatever standard government prescribes becomes the *minimum* standard. The way this works was well illustrated in housing. Most houses built over the last thirty or forty years have four inches of insulation above the ceiling. Much of this is blown-in insulation. Why? Because

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F.H.A. required four inches of insulation, and that is what most houses got. It was widely claimed that the F.H.A. requirements became the standard of the industry. They were, of course, *minimum* (and inadequate) standards, something the rising cost of energy has helped to bring to our attention. (The F.H.A. standard having been discredited did not, of course, lead that organization to retire from the field. It has simply set higher standards which, in turn, become the *minimum* standard.) A similar development is occurring in the generic drug movement. If the F.D.A. and other agencies are successful, minimally effective drugs will become the standard. To the extent that government pays for medical attention, it will be in accord with minimal requirements. Open heart surgery with a triple by-pass, will be open heart surgery with a triple by-pass, and that is what will be paid for. In short, far from providing the highest quality medical care possible, we will tend to get the lowest quality which the law allows.

Third, government intervention tends to restrain and inhibit innovation. No standards can be set for that which does not exist, and no price scales can be devised. We are experiencing already the slowdown that results from having to gain government approval before new drugs can be put on the market. The testing requirements are already so prohibitive that men will tend to turn their energies away from trying to innovate. The same restrictions do not yet apply to procedures, but there is an inhibitive tendency there also.

The Quality of Life

This brings us back, however, to my original point. The quality of medical treatment cannot be fully considered as separate from the quality of life in general. The innovations which raise the quality of medicine are themselves a product of the independence and freedom of individuals. Reduction in the independence of individuals by restrictions must inevitably result in lower quality medical treatment than would otherwise have been available. But medical treatment itself is but an adjunct to the independence of individuals.

In the final analysis, then, there is one straight question that can be asked which, when it is answered straight, provides the answers to the subordinate questions as well. It is this: Do you want that quality of life which is possible when individuals are independent? If so, you will want as well the availability of the highest quality of medical treatment.

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David P. Hunt

THE ECONOMICS OF ENERGY

TWO YEARS AGO much of the United States experienced a natural gas shortage of emergency proportions; today, there is a surplus of natural gas. What happened to turn a shortage into a surplus so quickly? What similarities are there between the natural gas shortage and today's gasoline shortages?

There has been little change in basic natural resources in the last two years to explain the shift from shortage to surplus. New discoveries of natural gas still fall short of annual production. The ratio of proven reserves to production is still declining as the carrying cost of this 10-year inventory rises. But the much publicized decline in annual production has halted and seems poised to turn upward. Geologists now estimate that at today's prices the U.S. probably has another 50 year's reserves that could be economically produced if wells are drilled. World-wide potential gas reserves are now at least 200 times the world's annual consumption. And these figures don't count gas from coal, gas from shale, or gas from other technologically feasible alternatives that can supplement conventional natural gas supplies.

The reason for the natural gas shortage was not a lack of natural resources but the lack of an economic policy permitting the development of these resources. Why

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was the U.S. the only country in the world to experience a natural gas shortage?

Federal ceiling prices on natural gas production sold across state lines were first established in 1954. For almost 15 years the ceiling prices remained nearly constant while inflation eroded the number of new wells that could be drilled with the revenue stream from past drilling investments. By 1968 interstate price ceilings were too low to attract new capital investment for drilling ventures, and over half of the independent producers in the U.S. had gone out of business. Natural gas distributors in consuming states such as Ohio, which obtains 90 per cent of its gas from out of state, found that they were no longer able to contract for new interstate supplies to meet growing market demands stimulated by low prices relative to alternate fuels. What followed was the destruction of market equilibrium that could have been predicted by any economist.

While consumers can change their energy consumption patterns significantly in the long run, the demand for energy, and each specific form of energy, is rather inelastic in the short run. Consumers can switch fuels or reduce consumption only if they make the capital investment to replace or modify their existing appliances, buildings, industrial processing equipment or vehicles. There are also three to five years lead times between investment decisions and the development of energy resources. In the severe natural gas shortage of the winter of 1977, supply fell short of demand by only 3 per cent and yet the impact was felt by almost everyone. Likewise, the recent gasoline shortage is the result of a very small supply/demand imbalance relative to the total market.

The Market at Work

The natural gas shortage would have been far more severe and still exist today were it not for the fact that market forces eventually provide the incentive to circumvent government controls. For example, blocked from interstate sources of gas in 1969, The East Ohio Gas Company turned to two other sources not subject to federal regulation: Ohio intrastate resources and the world market.

Company management recognized the need for a short-term supply to fill in the gap until gas could be obtained from the world market or until U.S. policy would again encourage gas production for interstate sales. For that vital interim supply, the Company turned to the previously marginally economic Ohio gas fields. The unregulated price paid to small independent Ohio producers was doubled, then tripled, and within several years Ohio production tripled also. The

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share of market met with Ohio gas increased from 5 per cent to 15 per cent in three years.

As vital as the Ohio gas has been in minimizing shortages, it must still be kept in perspective. It is not the long-term solution to Ohio's energy problems. All of the gas believed to be in Ohio could meet the needs of Ohio consumers for only two years.

For a longer-term solution, East Ohio Gas, as part of the Consolidated Natural Gas System, signed a 25-year contract in 1970 to bring liquefied natural gas by tanker from Algeria. After years of government red tape and $2 billion of construction, LNG deliveries began in 1978. LNG will increase supplies by 15 per cent and satisfy market growth for the next ten years.

In the meantime, federal policy on natural gas has become more realistic. Interstate price ceilings have been increased in real dollar terms beginning in 1975 and the Natural Gas Policy Act of 1978 established interim price ceilings leading to complete decontrol by 1985. The stage is now set for free market forces to do what federal regulation has been unable to do: to balance supply and demand at the lowest reasonable price.

Despite an eightfold increase in the wellhead prices of new sources of gas in the last ten years, natural gas is still the bargain energy. Natural gas distributors have moderated much of this increase by blending the new supplies with lower cost supplies under older contracts. For the customers of The East Ohio Gas Company, rates have just doubled in the last ten years—a pace only slightly exceeding the general inflation rate. Natural gas is still only two-thirds the cost of home heating oil or coal and one-fourth the cost of electricity.

Higher prices have already begun to dampen demand and increase drilling. Conservation, primarily in response to increased cost, has reduced residential use per customer by 15 per cent since October 1973, and gas well completions are on the rise again—proof again that energy shortages are more the result of economic policy than the availability of natural resources.

The Price of Price Controls

IDEAS ON LIBERTY

THE evidence is clear and overwhelming. Throughout forty centuries of human experience, price controls at their best have always been a miserable failure. At their worst, they have led to famine and to bloodshed—to defeat and to disaster.

IRVING S. OLDS

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Donald McLaughlin

GOLD HAS RISEN— But Remains the Same

Not very long before his untimely death, Jacques Rueff in his fluent but slightly accented English commented that further debates on the status of gold in the monetary system seemed hardly necessary for "events were taking over." And indeed they have.

With surprisingly little fanfare, gold is maintaining its firm place in the world's reserves where it commands a respect far greater than any of the fiat currencies that pass for money these days. That this could happen in spite of the persistent anti-gold position of successive United States Administrations over more than four decades still further emphasizes its durability as money and the firm faith all manner of men have in it—apart from those who rule in Washington and bankers whose skill is largely in manipulation of the technicalities of increasingly complex instruments of credit.

The long record of human history surely reveals that when money, whether in the form of precious metal or credit, is debased and abused, a nation or even the entire world suffers. Today we are in a period of such misbehavior and mismanagement but the persistent strength of gold even under these trying conditions offers hope that, if it is used wisely and effectively, order can eventually be restored.

The principle currently known as Gresham's Law has been recognized for tens of centuries. It is as sound today as it was when Aristophanes used it in a metaphor to illustrate how good men were driven from public life in Athens in the same way that untrustworthy money forced better money out of circula-

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tion. At about the same time, Aristotle stated the concept more logically perhaps, but less poetically. Today, the principle is well understood in most high circles in Europe. In 1973, Milton Gilbert noted that gold remained unused in the vaults of the central banks—but not unloved. In America, unfortunately, the money managers and politicians seem less familiar with the classics.

Since then, eighteen governments (but not the United States) are valuing their official gold stocks closer to market prices—or more rationally expressed are putting the currencies they hold in a realistic ratio to gold. Furthermore, by utilizing gold at a market-related rate, the recently created European Monetary System has provided the Common Market countries with a mechanism for employing their gold reserves effectively in foreign exchange transactions. These wise moves tend to reduce the discrepancies that tend to immobilize gold in response to Aristophanes' or Gresham's Law, even though they do not remove all fears arising from the continued depreciation of fiat money.

According to our official policy, gold has now been demonetized and henceforth fiat currencies and credit instruments will be relied upon exclusively to perform the services expected from money. Their most distinctive quality unfortunately appears to be a tendency to decline in purchasing power, a very troublesome defect in anything that claims to be money.

"Paper Gold"

To overcome the restrictions imposed by national sovereignty and political borders, a strange device known as Special Drawing Rights was created by the International Monetary Fund, at first vaguely attached to gold and now defined in terms of a "basket" of currencies, all of which are depreciating in real value though at different rates. In essence, the SDRs were an attempt to create an international form of fiat money. For a time, their enthusiastic supporters even referred to them as "paper gold." So far, their acceptance even under duress has been restrained, to put it mildly.

Even though "demonetized" by the dictum of the United States, nearly a billion troy ounces of gold are still firmly held in the official reserves of the western nations, rather a substantial amount to declare was no longer legal money. This obvious preference for gold should be rather disquieting for those who regard Gresham's Law as obsolete.

A monetary system based exclusively on credit possibly could be made to function, if managed by a small group of knowledgeable men of intelligence and integrity, with complete political independence and

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power, as well as mastery of the technical intricacies of money and finance and unprejudiced understanding of both national and international conditions that influence policies. Until such paragons can be brought into existence, however, it will be safer to retain the discipline of gold as an element of the monetary system than to expect that those who manage money based on credit and on government fiat will do so with sufficient skill that it will in time attain the confidence now commanded by gold. From the record of centuries this can hardly be regarded as even a forlorn hope.

Significant Experiments

In the natural sciences, ideas and hypotheses are tested by controlled experiments and confirmed or rejected by their outcome. In the social sciences such definitive tests are rarely possible. But with regard to gold's place in the monetary system there have been episodes that have provided results of unusually positive sort.

The first that should have been regarded as a significant experiment was the effort of several governments at the instigation of the United States 22 years ago to maintain the official price of gold at $35 per ounce by making gold available at this rate on the London market to all who desired to purchase it. It was a costly experiment. After several billion dollars had been spent with little effect, except to transfer gold into hands eager to accept it at a bargain price, the drain on gold reserves soon became too apparent and excessive to be tolerated and the sales were abandoned close to the Ides of March in 1968, with self-serving explanations that the mission had been accomplished. It was accompanied by the abrupt announcement that sales and purchases of gold by the participating governments would be discontinued at the official rate except between Central Banks.

The restrictions on ownership of gold were not repealed but miners and others with gold to sell were permitted to do so on the market to specifically authorized purchasers for whatever price their metal might command. In spite of predictions by several prominent economists and politicians that without the support of the dollar the gold price would sink to much lower levels, this didn't happen. After a short period of little change, the price started to rise, and this trend has continued with the usual market swings but with each new peak rising above the last. The results of this experiment alone should have been accepted as proof that the price of gold can not be tied to an unconvertible currency, subject to manipulations that cause it to depreciate in value.

A second test with equally deci-

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sive results occurred during the international financial turmoil in 1971 that led to the closing of the "gold window" on August 15th, when the United States Administration announced that it would (or could) no longer redeem dollars held by Central Banks in gold at the official price which by that time had been raised from Roosevelt's $35 an ounce to the strangely precise figure of $42.22 per ounce. The magnitude of claims in dollars had for some time made it apparent that the pledge to honor them in such terms had become impossible to meet. In effect, the United States admitted bankruptcy, as far as its obligation was concerned to redeem such dollars in gold at the official rate. Again it was made clear except to those whose anti-gold fixation made them blind to realities that a fiat dollar can not control the worth of gold.

The third experiment was the attempt to check the rising price of gold on the market and the weakness of the dollar that it revealed by substantial sales of gold from the reserves of the United States Treasury and the gold held by the International Monetary Fund. Whatever those who initiated this policy had in mind, it is unlikely that they anticipated or desired that the market price of gold would rise in spite of the large quantities they disposed of.

Furthermore, in the course of these sales, the Central Banks of Europe have not reduced their stocks of gold and indeed have firmly held the gold returned to them by the IMF which hardly seems in accordance with the decision, sponsored by the United States, that gold had been demonetized. Even a number of the Developing Countries have preferred to accept their allotment of the IMF sales in gold rather than in the paper in which the so-called aid would have presumably been paid to them.

In the natural sciences, when the outcome of a series of experiments is so definite, even the most ardent advocates of the ideas being tested usually accept them as conclusive. Unfortunately, the anti-gold group in power in Washington continues to ignore their clear message.

An Encouraging Sign

Restoration of the gold standard, which would require redefinition of the major currencies in terms of gold and establishment of unrestricted convertibility at new fixed rates, hardly seems attainable until the abuses of credit and the increasing worldwide inflation have been corrected and ended. It is still an objective worth striving for but to achieve it would require more drastic and disciplined action than our electorate and our politicians seeking

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reelection are likely to accept in the foreseeable future.

Even though restoration of the gold standard for the time being may be ruled out, a new monetary system appears to be evolving in which gold will continue to have an important place and be a strong and stabilizing element. Progress toward this end is revealed, not only by the firm retention of gold stocks by the major reserve banks—with the exception of the ill-considered sales by the U.S. Treasury and its sycophant, the IMF—but also by the removal of restrictions on ownership of gold by citizens and the issuance by many nations of gold coins whose worth is primarily determined by their weight in gold. Among them, the one-ounce Krugerrand, various handsome Mexican coins with gold content stated in metric units, and new coins struck from old dies such as the Austrian Krona are notable examples. The designations in national currency units that some still bear are obviously meaningless. The principal contribution by the issuing government is its seal that justifies confidence that the gold content is as stated.

A timely step that would simplify and create better order, as well as strengthen the function of gold in the evolving monetary system, would be the creation and dissemination of a coin of uniform gold content, fineness and size that could become a standard by which other monetary devices could be measured.

A Coin of Uniform Weight

With one gram of gold adopted as the basic unit, a coin containing 10 grams of gold (0.322 ounces troy), in the 90% alloy with copper commonly used in coinage to provide hardness, would be a convenient size, slightly larger than the old American five-dollar gold coin or the British sovereign.

The acceptance of such a golden unit would probably be facilitated if the coins were minted by each of the major nations and their authenticity established by them. Uniformity in design would not be necessary. Their essential quality would be the common gold content. Competition in beauty and esthetic appeal would have much to commend it.

If an appropriate name for such 10 gram gold coins could be found that would be easily comprehended internationally, so much the better, but if not, there would be no harm in each nation using a term based on some aspect of the design in which it took pride.

The unit of measurement, however, should be one gram of gold which could be abbreviated as 1 gm Au, a designation that would be understood and translated into any language in this age of common scientific nomenclature. The 10 gm Au

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coin which could be acquired and handled would give the unit a tangible reality. This is a quality that Special Drawing Rights can never acquire, in spite of the presumption of their creators in calling them "paper gold."

Leave It to the Market

The rigid discipline of the gold standard, however, need not be imposed until desired. No tie need exist between any national fiat currency and the golden units. Any country would be completely free to indulge in whatever political, social or economic policies (or nonsense) it desired. The only restraint imposed by the gold in the reserves and the golden coins would be the effect on the market price of the currencies expressed in grams of gold. The objectionable term "the price of gold" could be abandoned, with currencies, as well as commodities and services, priced on the market in a unit containing a specific weight of gold. The plethora of quotations of currencies—dollars, marks, francs, yen, sovereigns, and the like expressed in each other, all variables measured by other independent and sometimes erratic variables—could be eventually abandoned. It would do no harm to continue such exchange quotations as long as the momentum of tradition required. But they should be accompanied by quotations in the proposed gold units, which would reveal the status of each national currency in one common standard.

Abuses of credit and excesses in creation of fiat currencies based on debt could hardly be concealed, for they would be promptly revealed in the price of the paper in gold. The economy obviously needs both elements—credit and stable money—but with gold effectively utilized in the monetary system a badly needed base would be provided upon which deficits, changes in quantity of fiat money and inflation, among other evils of the times, could be clearly revealed.

The Individual's Choice

The individual should of course have the privilege of acquiring the golden coins at rates determined by the market price of the currency he possessed. The denial of such a freedom by any government would in all probability be immediately and unfavorably reflected in the price of the currency.

The right to buy gold—especially coins—actually puts into the hands of anyone desiring to do so, a very special commodity that has long possessed the essential qualities of money, viz., a medium of exchange, a means of measuring the relative value of other commodities and services, and a safe way to store wealth. The latter quality is not possessed today by any national currency.

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The existence of a dominant gold coin—such as the one proposed, containing 10 grams of gold—would provide a simple constant, so to speak, against which all currencies could be measured with ease and confidence. It would, of course, not be a constant of value in the strict sense the term is used in mathematics and the physical sciences, but it would at least stand for a fixed quantity of gold. No commodity—not even gold—can claim to be invariable in worth and to provide an unchanging base for measurement of values of materials and services, but over the centuries gold has come nearest to doing this, as Roy Jastram has so well demonstrated in his recent book, *The Golden Constant: The English and American Experience, 1560-1976* (John Wiley & Sons, Inc., 1977).

Three years ago, the title of a speech I gave at an annual gathering in a redwood grove in California was "The Resurrection of Gold Without Benefit of Clergy." Since then, in spite of the high priests in the Treasury and elsewhere in the government, Gold Has Risen as the dollar and other fiat currencies have deteriorated, and yet its worth, expressed in the cost in gold of a good dinner, a suit of clothes, a haircut or even a barrel of oil has not changed much. The Resurrection of Gold should now be regarded as demonstrated and as an important advance toward a sounder monetary system, with clear distinction between the status of money based on the relatively stable worth of the traditional monetary commodity—gold—and the variable national currencies that represent nothing more than credit in one form or another.

If this is coming about without formal conferences and long debates, so much the better. The open market even for currencies is a masterful device and one that is essential for economic freedom. It will continue to prevail and exert its influence even over the value of unconvertible currencies. With the variety of trustworthy coins now available, gold is already gaining more and more recognition as money in which currencies can be measured, and if a gold coin of established quality gains wide acceptance, the monetary system will be approaching a status in which there will be far better hope of attaining stability than has existed since World War II.

Fiat Money Rejected

How the present uncertainties will end is hard to predict. In the last few months, the market "price" of gold has risen at an unexpectedly rapid rate. There are undoubtedly some undesirable factors involved, such as excessive transactions in gold futures, but by and large the accelerating rate at which gold has risen is to a much greater extent a

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result of the growing concern about the domestic economy and the deteriorating international situation, not to mention the persistence of deficit financing and the resulting unavoidable inflation. If the price of currencies were quoted in units of gold rather than the other way around, the instability attributed to gold by some of its detractors would be more clearly revealed as weaknesses in the artificial devices we now must use as money.

I do recall, however, that a few years ago when I was asked in a radio interview how high the price of gold would go, I replied that it had approached infinity in German marks in 1923. That need not and should not happen in America but with a few more years of persistent deficits and unwillingness to forgo extravagances in our way of life, it is a possibility that should not be lightly dismissed.

Stop Deficit Spending and Monetization of Debt

The first essential step to prevent such a disaster is to keep expenditures by the government within its income and to end monetization of debt. The second even more serious need is to find the least painful means of dealing with the tremendous and still mounting debt—domestic and international—that has now reached magnitudes that make its retirement by conventional means practically impossible. Reduction by default and/or by inflation are unfortunately much easier. Repudiation of debt in a more dramatic way would be the substitution of a new dollar for a number of existing dollars. Unfortunately this procedure is not without precedent. In 1926-28 Poincaré and in 1958 Charles de Gaulle created new francs for the then current francs that became known as "ancien francs." The creation of the Deutsche Mark is another example. These procedures were drastic though probably unavoidable. Such moves, however, in general are likely to be a mixture of good and evil—probably more of the latter than the former. But, if a country is forced to "bite the bullet" to correct past mistakes and excesses, liquidation of excessive debt by payment of a small fraction in sound money may not be the worst way and might even be the best way if the new currency—or the new dollar or whatever it might be called—were made convertible into gold, when a durable rate could be established.

None of these disturbing developments is inevitable, but unless the American people and their leaders who are dependent on their votes have the will to put our house in order and accept the austerity that must be faced, events will indeed take over—and they are not likely to be pleasant.

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Ludwig von Mises

Politics and Ideas

In the Age of Enlightenment, in the years in which the North Americans founded their independence, and a few years later, when the Spanish and Portuguese colonies were transformed into independent nations, the prevailing mood in Western civilization was optimistic. At that time all philosophers and statesmen were fully convinced that we were living at the beginning of a new age of prosperity, progress, and freedom. In those days people expected that the new political institutions—the constitutional representative governments established in the free nations of Europe and America—would work in a very beneficial way, and that economic freedom would continuously improve the material conditions of mankind.

We know very well that some of these expectations were too optimistic. It is certainly true that we have experienced, in the nineteenth and twentieth centuries, an unprecedented improvement in economic conditions, making it possible for a much larger population to live at a much higher standard of living. But we also know that many of the hopes of the eighteenth century philosophers have been badly shattered—hopes that there would not be any more wars and that revolutions would become unnecessary. These expectations were not realized.

During the nineteenth century, there was a period when wars decreased in both number and severity. But the twentieth century brought a resurgence of the war-like spirit, and we can fairly well say that we may not yet be at the end of the trials through which mankind will have to go.

The constitutional system that began at the end of the eighteenth and the beginning of the nineteenth century has disappointed mankind. Most people—also most authors—

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who have dealt with this problem seem to think there has been no connection between the economic and the political side of the problem. Thus, they tend to deal at great length with the decay of parliamentarianism—government by the representatives of the people—as if this phenomenon were completely independent of the economic situation and of the economic ideas that determine the activities of people.

But such an independence does not exist. Man is not a being that, on the one hand, has an economic side and, on the other hand, a political side, with no connection between the two. In fact, what is called the decay of freedom, of constitutional government and representative institutions, is the consequence of the radical change in economic and political ideas. The political events are the inevitable consequence of the change in economic policies.

A Common Goal—Different Ways to Reach It

The ideas that guided the statesmen, philosophers and lawyers who, in the eighteenth century and in the early nineteenth century developed the fundamentals of the new political system, started from the assumption that, within a nation, all honest citizens have the same ultimate goal. This ultimate goal, to which all decent men should be dedicated, is the welfare of the whole nation and also the welfare of other nations—these moral and political leaders being fully convinced that a free nation is not interested in conquest. They conceived of party strife as only natural, that it was perfectly normal for there to be differences of opinion concerning the best way to conduct the affairs of state.

Those people who held similar ideas about a problem cooperated, and this cooperation was called a party. But a party structure was not permanent. It did not depend on the position of the individuals within the whole social structure. It could change if people learned that their original position was based on erroneous assumptions, on erroneous ideas. From this point of view, many regarded the discussions in the election campaigns and later in the legislative assemblies as an important political factor. The speeches of members of a legislature were not considered to be merely pronouncements telling the world what a political party wanted. They were regarded as attempts to convince opposing groups that the speaker's own ideas were more correct, more beneficial to the common weal, than those which they had heard before.

Political speeches, editorials in newspapers, pamphlets, and books were written in order to persuade. There was little reason to believe that one could not convince the ma-

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PHOTO BY DAVID JARRETT

Ludwig von Mises, 1881-1973, was one of the great defenders of a rational economic science, and perhaps the single most creative mind at work in this field in our century.

Found among the papers of Dr. Mises were transcripts of lectures he delivered in Argentina in 1959. These have now been edited by his widow and are available as a Regnery/Gateway paperbacked book. This article, one of the lectures, is here reprinted by permission of the publishers. All rights reserved.

The book, *Economic Policy: Thoughts for Today and Tomorrow*, also may be purchased at $4.95 from The Foundation for Economic Education, Inc., Irvington-on-Hudson, N.Y. 10533.

jority that one's own position was absolutely correct if one's ideas were sound. It was from this point of view that the constitutional rules were written in the legislative bodies of the early nineteenth century.

But this implied that the government would not interfere with the economic conditions of the market. It implied that all citizens had only one political aim: the welfare of the whole country and of the whole nation. And it is precisely this social and economic philosophy that interventionism has replaced. Interventionism has spawned a very different philosophy.

Under interventionist ideas, it is the duty of the government to support, to subsidize, to give privileges to special groups. The idea of the eighteenth century statesmen was that the legislators had special ideas about the common good. But what we have today, what we see today in the reality of political life, practically without any exceptions, in all the countries of the world where there is not simply communist dictatorship, is a situation where there are no longer real political parties in the old classical sense, but merely *pressure groups*.

A pressure group is a group of people who want to attain for themselves a special privilege at the expense of the rest of the nation. This privilege may consist in a tariff on competing imports, it may consist in a subsidy, it may consist in laws that prevent other people from competing with the members of the

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pressure group. At any rate, it gives to the members of the pressure group a special position. It gives them something which is denied or ought to be denied—according to the ideas of the pressure group—to other groups.

The Form Remains

In the United States, the two-party system of the old days is seemingly still preserved. But this is only a camouflage of the real situation. In fact, the political life of the United States—as well as the political life of all other countries—is determined by the struggle and aspirations of pressure groups. In the United States there is still a Republican party and a Democratic party, but in each of these parties there are pressure group representatives. These pressure group representatives are more interested in cooperation with representatives of the same pressure group in the opposing party than with the efforts of fellow members in their own party.

To give you an example, if you talk to people in the United States who really know the business of Congress, they will tell you: "This man, this member of Congress represents the interests of the silver groups." Or they will tell you another man represents the wheat growers.

Of course, each of these pressure groups is necessarily a minority. In a system based on the division of labor, every special group that aims at privileges has to be a minority. And minorities never have the chance to attain success, if they do not cooperate with other similar minorities, similar pressure groups. In the legislative assemblies, they try to bring about a coalition between various pressure groups, so that they might become the majority. But, after a time, this coalition may disintegrate, because there are problems on which it is impossible to reach agreement with other pressure groups, and new pressure group coalitions are formed.

That is what happened in France in 1871, a situation which historians deemed "the decay of the Third Republic." It was not a decay of the Third Republic; it was simply an exemplification of the fact that the pressure group system is not a system that can be successfully applied to the government of a big nation.

You have, in the legislatures, representatives of wheat, of meat, of silver, and of oil, but first of all, of the various unions. Only one thing is *not* represented in the legislature: the nation as a whole. There are only a few who take the side of the nation as a whole. And all problems, even those of foreign policy, are seen from the point of view of the special pressure group interests.

In the United States, some of the less-populated states are interested

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in the price of silver. But not everybody in these states is interested in it. Nevertheless, the United States, for many decades, has spent a considerable sum of money, at the expense of the taxpayers, in order to buy silver above its market price. For another example, in the United States only a small proportion of the population is employed in agriculture; the remainder of the population is made up of consumers—but not producers—of agricultural products. The United States, nevertheless, has a policy of spending billions and billions in order to keep the prices of agricultural products above the potential market price.

One cannot say that this is a policy in favor of a small minority, because these agricultural interests are not uniform. The dairy farmer is not interested in a high price for cereals; on the contrary, he would prefer a lower price for this product. A chicken farmer wants a lower price for chicken feed. There are many incompatible special interests within this group. And yet, clever diplomacy in congressional politics makes it possible for small minority groups to get privileges at the expense of the majority.

The Sugar Lobby

One situation, especially interesting in the United States, concerns sugar. Perhaps only one out of 500 Americans is interested in a higher price for sugar. Probably 499 out of 500 want a lower price for sugar. Nevertheless, the policy of the United States is committed, by tariffs and other special measures, to a higher price for sugar. This policy is not only detrimental to the interests of those 499 who are consumers of sugar, it also creates a very severe problem of foreign policy for the United States. The aim of foreign policy is cooperation with all other American republics, some of which are interested in selling sugar to the United States. They would like to sell a greater quantity of it. This illustrates how pressure group interests may determine even the foreign policy of a nation.

For years, people throughout the world have been writing about democracy—about popular, representative government. They have been complaining about its inadequacies, but the democracy they criticize is only that democracy under which *interventionism* is the governing policy of the country.

Today one might hear people say: "In the early nineteenth century, in the legislatures of France, England, the United States, and other nations, there were speeches about the great problems of mankind. They fought against tyranny, for freedom, for cooperation with all other free nations. But now we are more practical in the legislature!"

Of course we are more practical;

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people today do not talk about freedom: they talk about a *higher price for peanuts*. If this is practical, then of course the legislatures have changed considerably, but not improved.

Representatives Shackled

These political changes, brought about by interventionism, have considerably weakened the power of nations and of representatives to resist the aspirations of dictators and the operations of tyrants. The legislative representatives whose only concern is to satisfy the voters who want, for instance, a high price for sugar, milk, and butter, and a low price for wheat (subsidized by the government) can represent the people only in a very weak way; they can never represent *all* their constituents.

The voters who are in favor of such privileges do not realize that there are also opponents who want the opposite thing and who prevent *their* representatives from achieving full success.

This system leads also to a constant increase of public expenditures, on the one hand, and makes it more difficult, on the other, to levy taxes. These pressure group representatives want many special privileges for their pressure groups, but they do not want to burden their supporters with a too-heavy tax load.

It was not the idea of the eighteenth century founders of modern constitutional government that a legislator should represent *not* the whole nation but only the special interests of the district in which he was elected; that was one of the consequences of interventionism. The original idea was that every member of the legislature *should* represent the whole nation. He was elected in a special district only because there he was known and elected by people who had confidence in him.

But it was not intended that he go into government in order to procure something special for his constituency, that he ask for a new school or a new hospital or a new lunatic asylum—thereby causing a considerable rise in government expenditures within his district. Pressure group politics explains why it is almost impossible, for all governments, to stop inflation. As soon as the elected officials try to restrict expenditures, to limit spending, those who support special interests, who derive advantages from special items in the budget, come and declare that *this* particular project cannot be undertaken, or that *that one* must be done.

Dictatorship, of course, is no solution to the problems of economics, just as it is not the answer to the problems of freedom. A dictator may start out by making promises of

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every sort but, being a dictator, he will not keep his promises. He will, instead, suppress free speech immediately, so that the newspapers and the legislative speech-makers will not be able to point out—days, months or years afterwards—that he said something different on the first day of his dictatorship than he did later on.

The terrible dictatorship which such a big country as Germany had to live through in the recent past comes to mind, as we look upon the decline of freedom in so many countries today. As a result, people speak now about the decay of freedom and about the decline of our civilization.

A Dubious Doctrine

People say that every civilization must finally fall into ruin and disintegrate. There are eminent supporters of this idea. One was a German teacher, Spengler, and another one, much better known, was the English historian Toynbee. They tell us that our civilization is now old. Spengler compared civilization to plants which grow and grow, but whose life finally comes to an end. The same, he says, is true for civilizations. The metaphorical likening of a civilization to a plant is completely arbitrary.

First of all, it is within the history of mankind very difficult to distinguish between different, independent civilizations. Civilizations are not independent; they are *interdependent*, they constantly influence each other. One cannot speak of the decline of a particular civilization, therefore, in the same way that one can speak of the death of a particular plant.

But even if you refute the doctrines of Spengler and Toynbee, a very popular comparison still remains: the comparison of decaying civilizations. It is certainly true that in the second century A.D., the Roman Empire nurtured a very flourishing civilization, that in those parts of Europe, Asia, and Africa in which the Roman Empire ruled, there was a very high civilization. There was also a very high *economic* civilization, based on a certain degree of division of labor. Although it appears quite primitive when compared with our conditions today, it certainly was remarkable. It reached the highest degree of the division of labor ever attained before modern capitalism. It is no less true that this civilization disintegrated, especially in the third century. This disintegration within the Roman Empire made it impossible for the Romans to resist aggression from without. Although the aggression was no worse than that which the Romans had resisted again and again in the preceding centuries, they could withstand it no longer after what had taken place within the Roman Empire.

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What had taken place? What was the problem? What was it that caused the disintegration of an empire which, in every regard, had attained the highest civilization ever achieved before the eighteenth century? The truth is that what destroyed this ancient civilization was something similar, almost identical to the dangers that threaten our civilization today: on the one hand it was *interventionism,* on the other hand, *inflation.* The interventionism of the Roman Empire consisted in the fact that the Roman Empire, following the preceding Greek policy, did not abstain from price control. This price control was mild, practically without any consequences, because for centuries it did not try to reduce prices below the market level.

But when inflation began in the third century, the poor Romans did not yet have our technical means for inflation—they could not print money. They had to debase the coinage, and this was a much inferior system of inflation compared to the present system, which—through the use of the modern printing press—can so easily destroy the value of money. But it was efficient enough, and it brought about the same result as price control. For the prices which the authorities tolerated were now below the potential price to which inflation had brought the prices of the various commodities.

Unseen Consequences

The result, of course, was that the supply of foodstuffs in the cities declined. The people in the cities were forced to go back to the country and to return to agricultural life. The Romans never realized what was happening. They did not understand it. They had not developed the mental tools to interpret the problems of the division of labor and the consequences of inflation upon market prices. That this currency inflation, currency debasement, was bad, this they knew of course very well.

Consequently, the emperors made laws against this movement. There were laws preventing the city dweller from moving to the country, but such laws were ineffective. As the people did not have anything to eat in the city, as they were starving, no law could keep them from leaving the city and going back into agriculture. The city dweller could no longer work in the processing industries of the cities as an artisan. And, with the loss of the markets in the cities, no one could buy anything there anymore.

Thus we see that, from the third century on, the cities of the Roman Empire were declining and that the division of labor became less intensive than it had been before. Finally, the medieval system of the self-sufficient household, of the "villa," as it was called in later laws, emerged.

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Therefore, if people compare our conditions with those of the Roman Empire and say: "We will go the same way," they have some reasons for saying so. They can find some facts which are similar. But there are also enormous differences. These differences are not in the political structure which prevailed in the second part of the third century. Then, on the average of every three years, an emperor was assassinated, and the man who killed him or caused his death became his successor. After three years, on the average, the same happened to the new emperor. When Diocletian, in the year 284, became emperor, he tried for some time to oppose the decay, but without success.

Planned Chaos

There are enormous differences between present-day conditions and those that prevailed in Rome, in that the measures that caused the disintegration of the Roman Empire were not premeditated. They were not, I would say, the result of reprehensible formalized doctrines.

In contrast, however, the interventionist ideas, the socialist ideas, the inflationist ideas of our time, have been concocted and formalized by writers and professors. And they are taught at colleges and universities. You may say: "Today's situation is much worse." I will answer: "No, it is not worse." It is better, in my opinion, because ideas can be defeated by other ideas. Nobody doubted, in the age of the Roman emperors, that the government had the right and that it was a good policy to determine maximum prices. Nobody disputed this.

But now that we have schools and professors and books that recommend this, we know very well that this is a problem for discussion. All these bad ideas from which we suffer today, which have made our policies so harmful, were developed by academic theorists.

A famous Spanish author spoke about "the revolt of the masses." We have to be very cautious in using this term, because this revolt was not made by the masses: it was made by the intellectuals. And those intellectuals who developed these doctrines were not men from the masses. The Marxian doctrine pretends that it is only the proletarians that have the good ideas and that only the proletarian mind created socialism. All the socialist authors, without exception, were *bourgeois* in the sense in which the socialists use this term.

Karl Marx was *not* a man from the proletariat. He was the son of a lawyer. He did not have to work to go to the university. He studied at the university in the same way as do the sons of well-to-do people today. Later, and for the rest of his life, he was supported by his friend Fried-

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rich Engels, who—being a manufacturer—was the worst type of "bourgeois," according to socialist ideas. In the language of Marxism, he was an exploiter.

Everything that happens in the social world in our time is the result of ideas. Good things and bad things. What is needed is to fight bad ideas. We must fight all that we dislike in public life. We must substitute better ideas for wrong ideas. We must refute the doctrines that promote union violence. We must oppose the confiscation of property, the control of prices, inflation, and all those evils from which we suffer.

The Power of Better Ideas

Ideas and only ideas can light the darkness. These ideas must be brought to the public in such a way that they persuade people. We must convince them that these ideas are the right ideas and not the wrong ones. The great age of the nineteenth century, the great achievements of capitalism, were the result of the ideas of the classical economists, of Adam Smith and David Ricardo, of Bastiat and others.

What we need is nothing else than to substitute better ideas for bad ideas. This, I hope and am confident, will be done by the rising generation. Our civilization is not doomed, as Spengler and Toynbee tell us. Our civilization will not be conquered by the spirit of Moscow. Our civilization will and must survive. And it will survive through better ideas than those which now govern most of the world today, and these better ideas will be developed by the rising generation.

I consider it as a very good sign that, while fifty years ago, practically nobody in the world had the courage to say anything in favor of a free economy, we have now, at least in some of the advanced countries of the world, institutions that are centers for the propagation of a free economy, such as, for example, the "Centre" in your country which invited me to come to Buenos Aires, to say a few words in this great city.

I could not say much about these important matters. Six lectures may be very much for an audience, but they are not enough to develop the whole philosophy of a free economic system, and certainly not enough to refute all the nonsense that has been written in the last fifty years about the economic problems with which we are dealing.

I am very grateful to this center for giving me the opportunity to address such a distinguished audience, and I hope that in a few years the number of those who are supporting ideas for freedom in this country, and in other countries, will increase considerably. I myself have full confidence in the future of freedom, both political and economic.

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P. Dean Russell

In Defense of Government

SOME of the worst evils in this world are committed by persons on government payrolls. This includes the official acts of the agents of Genghis Khan, Stalin, and Hitler—as well as those of the Shah and the Ayatollah Khomeini in Iran. It also includes such official acts as the Inquisition in Spain, the various slaughters recorded in the Old Testament, and the Russian soldiers in Afghanistan today.

The evil that's committed in the name of government includes economic destruction along with human destruction. To cite but one of hundreds of similar examples, just look around you at the results of government housing programs. For more than half-a-century now, our officials have poured hundreds-of-billions of our tax dollars into programs to clean up slums and to help the people who live in them. As a direct result of these governmental activities, we now have more slums (and more slum dwellers) than ever before.

These destructive governmental activities have been going on for many thousands of years. The trend appears to be increasing.

I have several friends and acquaintances who have reached the conclusion that the only way to stop this continuing evil is to get rid of the institution that's causing it, i.e., to abolish government itself. But even though I understand their motivation, it's literally impossible for any person or group of persons to abolish government. When they try, they are faced by a sort of "catch 22," i.e., the persons who abolish gov-

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ernment *are* the government, and there's no possible way to get around it.

You see, government is not an object. It's a *process*. And it happens in one form or another when two or more people first meet and decide to cooperate or not to cooperate, as the case may be. It can't be abolished (even in theory) for this simple reason: Government is *however* a people acting together as individuals. The only situation in which "no government" can exist is when no human beings ever do anything with (or for or against) other human beings. Even then, government hasn't been abolished; it just doesn't exist.

Thus the only option open to successful rebels (whether by ballot or bullet) is to change the form of their new government and, of course, to repeal laws they don't like and to add laws they do like.

Maximize Self-Government

The first preference of every peace-minded person is, of course, to maximize self-government, i.e., to settle agreements and disagreements voluntarily rather than to resort to compulsory processes. In fact, there can be no freedom at all if self-government is totally missing. But even peaceful solutions to disagreements are also a method of government; for that process, too, includes procedures for (1) paying for the services of the "arbitrator," however selected, and (2) what to do when some persons inevitably prove their humanness by finding the actions of other persons unacceptable.

Thus, while there's no possible way we can abolish the governing process as such—or even permanently restrict its activities—any one of us can refuse to obey a particular law. Many of us do. Much of the enduring literature of mankind is inspired by this ever-present conflict between conscience and conformity. It always encourages me when I hear about a person who refuses to obey a law that's contrary to his or her conscience. Of course, we law-breakers must pay a price—sometimes a fearful price—for our illegal actions.

That consequence is hardly surprising. After all, a law can't be voluntary. That would be a contradiction in terms. Without exception, all laws (all acts of government) compel an unknown number of people to do something we wouldn't do voluntarily. The acts we are compelled (or forbidden) to do may be good or bad. That's another issue, and it's not related to the inherent nature of government itself.

I encountered this no-government or "voluntary law" idea in the American Civil Liberties Union in the 1960s. I discovered that intelligent lawyers in my own New York

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chapter of ACLU were using that argument to defend persons who refused to participate in our war in Indochina. I did my level best to convince the leaders of our organization that they were using an illogical (even nonsensical) approach to the problem. I failed to dissuade them.

Those leaders were with me completely in my opposition to the draft, as well as to our government's decision to send troops to Vietnam at all. But in spite of my written protests and arguments, they continued to use my membership dues to advance the strange idea that laws should be voluntary, i.e., every person should have the right to disobey a law *without penalty* if the law is contrary to his moral convictions. That concept (stripped of legal phraseology) was in the mainstream of ACLU defense of draft evaders during the 1960s.

I had been attracted to ACLU because of its magnificent work for "equal treatment under law" for racial minorities and most everyone else. I wanted to continue my support of that type of work. But I couldn't figure out any way to support the one without supporting the other. Thus (with great reluctance) I finally resigned from my longtime membership in ACLU. I just couldn't continue to associate myself with people who participated in such shallow thinking as voluntary law.

When all is said and done, the officials of government never deal with "things" but only with people and our interrelationships. For example, it is impossible to pass a law against high prices. The law is necessarily against *persons* who raise prices above a level set by an official. Whether or not our government *should* involve itself in various human relationships is debatable —and is debated. Necessarily the debate always concerns *persons,* and what we should be compelled to do and forbidden to do. Things, e.g., tides and floods, are not subject to man-made laws; only people are.

Do you remember when the Swedish people began their national debate concerning whether or not parents would be permitted to spank their children? We Americans laughed. We shouldn't have. In the United States, we spank our children only with the permission of government. It's always been that way. And if you-the-parent exceed the legal limit of punishment delegated to you by our government you can end up in jail and have your children taken away from you. Your crime will be called "child abuse." Personally, I'm in favor of laws against parents who beat up and physically injure their children. And vice versa!

We are legally forbidden (as specified by government) from abusing *any* human being. The ages of

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the persons involved—and their relationships—doesn't deny this reality of the purpose of government. And the fact that governments always (no exception) exceed the limits of this protective function doesn't deny the logic for legal protection against aggressors.

Early Forms of Government

Some form of government appeared when the first two people on earth had their first disagreement—or agreement, as the case may have been. The first government was most likely a patriarchal dictatorship; for example, the process of government followed by Abraham when he decided to sacrifice Isaac. It could have been some form of democracy, however; for example, the type of majority rule followed by Joseph's brothers when they debated his fate. Nobody knows.

We can logically deduce from the inherently self-centered nature of man, however, that some sort of government automatically came into existence whenever two or more people lived in the same neighborhood. For whatever reason, they observed at least a few simple rules, with known ways of enforcing them. Even one rule or understanding *backed by an effective threat of sanctions of some sort* is, by any definition, government.

Whether the particular community is a family, a tribe, or a nation will surely alter the form of government and how to pay for its services. But that doesn't alter the principle of government.

Government in one form or another has existed throughout the thousands (or millions) of years that man has been on this earth. There have never been people without laws and ways to pay the enforcers of the laws, i.e., government. That's persuasive evidence indeed that government is inherent in the nature of man and his relationships with other human beings. It even supports the idea that government is perhaps as necessary and as natural as eating. They both came at the same time and for the same purpose, i.e., survival. True, in our efforts to survive, we human beings do strange things, both individually and collectively. That proves only that we are human beings.

A Contradictory Process

Another compelling reason why government won't be abolished (even in theory) is that the people who say they wish to do away with it are persons who sincerely want to be helpful. That's why they want to abolish government—because it's evil. And obviously they won't leave in place all those unjust laws that caused them to topple the government in the first place. A clean slate is called for.

How would they go about rectify-

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ing all those bad laws? Surely not by whim or chance. Something more logical is required, such as one final use of the political mechanism itself—for a noble purpose. That's why the philosophers who argue for the abolition of government make this promise in one way or another: First we'll wipe the slate clean by abolishing all those bad laws. *Then* we'll do away with government itself.

But, again, government is not merely a mechanism or thing; it's a continuing process. It continues to exist as long as people continue to exist. It's *however* people act together. And if the rebels refuse to direct this process in one way or another, the deposed leaders of the former government will be happy to return.

Thus those good people would have no choice but to use the power of government to do good to you and me in whatever ways that appealed to *their* particular sense of justice. Probably the primary difference from what we now have is that the new leaders might well be more dedicated and sincere than their predecessors. I'm not totally convinced that would be an improvement. I keep remembering that the Ayatollah Khomeini is a sincere and dedicated person who truly wants to do good for mankind. If you doubt it, just ask him.

Perhaps we people who so clearly understand the evils committed in the name of government are ill-advised to try to gain control of it for *any* purpose. Perhaps we could more readily accomplish our purpose of maximizing peace and prosperity and self-government in this fashion: just learn how to better explain the merits of a readily available alternative for most of the activities now performed by government.

That alternative is, of course, the market economy of private ownership and freedom of choice. The market, too, is a process. And (except for the power-mad) it's the process most likely to bring to every one of us whatever it is we most want. But if we ourselves devote our primary efforts to political attempts to gain control of that continuing process called government, then no one is likely to believe our promise to use it only for good purposes. That's what all the politicians say.

IDEAS ON LIBERTY

Hanford Henderson

WE ask of the State and Society only one thing—a fair field and no favors . . . a strict cutting out of all paternalistic activities, and the unfaltering insistence that government shall really perform its basic and fundamental duty, the protection of the individual citizen from violence and interference.

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John Semmens

GOVERNMENT COST/BENEFIT ANALYSES

The Impetus and the Impotence

The Impetus

As the activities of government grow to consume more and more of the available scarce resources, the question of the productivity of the various government activities becomes more and more important. By various measures, the government's consumption of resources is enormous. The proposed federal budget for 1981 exceeds $600 billion in expenditures. The funded national debt approaches a trillion dollars. The unfunded federal obligations run to an additional eight trillion dollars. Government, at all levels, consumes about 40 per cent of the national income.

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The continuous stream of exposure of government induced waste raises serious questions about the utility of government activities. Senator Proxmire's "Golden Fleece" award, highlighting atrocious episodes of government waste, is merely the tip of a vast iceberg of misallocation of scarce resources. In addition to this direct evidence of the frivolous expenditure of money, there are the costs of fraud, as demonstrated by the General Services Administration's purchasing practices. The costs of government are not always revealed in government outlays. An imposing burden of expense for a series of government regulations is inflicted upon private business and individual consumers.

The outpouring of negative publicity has inspired demands that the government put its house in order. On the basis of financial return on investment, most, if not all, of the

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government's activities are losing propositions. It is asserted, though, that there are vast social benefits that are generated as a result of government programs and that these benefits are not reflected in financial return calculations. Criticisms of costly government programs were routinely brushed aside with the broom of social benefits. Who can place a price on a human life? Who can evaluate the economic value of social justice?

Outrage over the egregious abuse of the non-quantifiable social benefits arguments has produced pressure to justify the effectiveness of government social programs. This pressure has often manifested itself in the demand that a cost/benefit analysis be performed in order to evaluate the benefits received in exchange for government expenditures. A number of well-known economists have been prominent in the clamor for cost/benefit studies as a means of assessing the value of government programs.

The inclusion of requirements for cost/benefit analyses in recent legislation may be seen by some as a forward step in the effort to control government waste. However, a careful examination of the rules and procedures laid down for the cost/benefit analyses reveals that hopes for relief from this sector are not well founded.

It is largely a case of "monkey see, monkey do." The government procedures for cost/benefit analyses are all too often crude distortions of the financial budgeting practices of private industry. These distortions stem, in part, from simple incompetence—the inability to apply sound economic or financial principles to the evaluation of a public investment. The distortions also receive some impetus from conscious intent to mold the methodology and the data to produce the desired answers. An examination of the cost/benefit methodology prescribed by the Federal Railroad Administration (FRA) in compliance with requirements of the Local Rail Assistance Act of 1978 will serve as a demonstration of the futility of reliance upon government directed cost/benefit analyses as a check on public spending.

Income Gains vs. Income Transfers

Advocates of government subsidies are sensitive to the apt criticism that subsidies are merely income transfers. The whole tax financed nature of government expenditures would seem to lay a strong prima facie case for the mere transfer hypothesis.

The FRA's guidelines on cost/benefit analyses are careful to require a distinction between impacts of local rail assistance which are "real" and those which are "just

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transfers." This is all very nice as far as directives go, but how the distinction is to be made is unclear. The description of "real" losses from a prospective rail abandonment read as follows: "If the employee remains unemployed for a period, his/her production is lost for that period. This is a real loss."

On the surface, the description of "real" losses may appear straight forward. The problem with this approach is its simplistic view of "real" losses. If we can show that Mr. Jones or Ms. Smith will be unemployed if a rail abandonment occurs then their production is lost. What goes unacknowledged is the prospective employment impacts of alternative uses of the funds which are proposed for use in subsidizing rail service. This is the classic case of the seen versus the unseen that was illustrated by Frederic Bastiat in the early 19th century.

The rail line in question may provide service for several shippers, a number of whom might go out of business if required to bear the full cost of providing rail transportation. The closing of these businesses would result in some incidence of unemployment of *specific* individuals. The production of these individuals would be lost. Therefore, the subsidy is supposedly justified. Unnoticed in this neat little scenario is what the incidence of unemployment is among industries that must be taxed in order to provide funds for the rail subsidy. While it might even be admitted that government taxation can cause marginal businesses to go bankrupt, the actual tax dollars extracted cannot be directly traced to a specific government expenditure. Thus, the two incidents of unemployment are segregated from one another in terms of the FRA's superficial consideration of "real" losses.

An Untenable Position

One possible explanation of this simplistic segregation of integral components of the taxation and subsidization transfer program is that the focus is only on local impacts. Such an explanation would recognize the absence of any net social gain in a broader context, but still justify the program on the grounds of promoting purely local benefits. An attempt to explain the purpose of the program in these terms was, however, characterized as "unacceptable." The disruption costs of individual unemployment, business relocation and the like are "real," "net" social losses, according to the FRA.

The FRA's position is, of course, untenable. In an advanced economy, where money serves as a medium of exchange and a representation of various prices and values throughout the society, there is no need to identify specific dollars in order to

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draw a conclusion that a transaction is a transfer of resources rather than a generator of resources. Furthermore, the weight of the evidence indicates that the net effect of the transfer program involving local rail assistance is negative.

To begin with, the subsidy program is a consumer rather than a creator of wealth. Enterprises which produce positive returns on investment are taxed at progressive rates in order to fund services which are not self-supporting. This has the consequence of reducing the net financial return on the total capital investment of the entire society. The sustained effect of such transfers is to reduce the real wealth of the community in all subsequent investment periods. In short, the succeeding generations of humans will be less well off as a result of the tax and subsidy transfer.

That the social returns would compensate for the financial losses is, at best, implausible. If there were significant community impacts, it would seem logical that the affected communities would be willing to fund the subsidy program. Just the opposite is the case. Not only are communities not usually willing to fund the subsidies, they often have the programs forced on them by the federal government. No tax rebates for non-participation are awarded. Any eligible community that does not grab for its share of the federal money loses out. The local clamor for federal assistance arises from the fact that programs are designed to make the federal grant a free good. As any economist could tell you, at a price of zero, demand will be virtually unlimited. The fact that the grant programs have to be structured in this manner is impressive evidence that the social benefits are exceeded by the financial costs of the program.

Consumer Surplus

A large part of the rationale behind the FRA's cost/benefit analyses guidelines is tied in with the concept of "consumer surplus." Consumer surplus is the benefit enjoyed by consumers who do not have to pay their full reservation price for a good or service. At any specific price for a good or service, there will always be customers who would have been willing and able to pay more. Since the price paid serves as a proxy for the value of a good or service to the purchaser, the acquisition of a good or service at less than the highest price a purchaser would be willing to pay leaves such a purchaser with a so-called consumer surplus.

The phenomenon of consumer surplus is used by the FRA to justify subsidies for services whose revenues are inadequate to cover costs: "If the railroad could practice perfect price discrimination, then it may generate an economic profit; if

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so, then there would exist a net economic gain in keeping the service rather than abandoning it. This gain would exist even if institutional and logistic considerations made it impossible for the railroad to practice price discrimination. Although the railroad may suffer a loss, it would be more than offset by the surplus value enjoyed by the shippers."

There is no explanation of how we know that the economic losses to the railroad are "more than offset" by the gains of the shippers. Even if it is true that in a given case the price of rail service is held below levels that represent the "true" value of the service, it does not follow that the gains to the shippers must be larger than the income losses to the railroad. The relevant basis for comparison is not perfect price discrimination. Rather, it is some market clearing price (or prices) that must be compared to the regulation-depressed price used in the FRA approach. Under such conditions it is not at all obvious that the consumer gain from subsidy exceeds its cost.

The whole presumption that consumer surplus exceeds the cost of subsidy is contingent upon our knowledge of what the demand curve would look like given a schedule of prices. In real life, we do not know such things. All we can know for sure is the quantity sold at a given price at a given moment in time. The convenient curves used for academic exposition are hypothetical models of *static* conditions. Inconveniently, the market is a *dynamic* process in which the price system acts as a signaling device to guide production decisions. Using the suppression of the price system in railroading via the mechanism of government regulation as the justification for ignoring the signals employs convoluted logic. The most obvious remedy would be the removal of railroad price controls.

On the Other Hand

An unrestricted price system would be the most effective way of dealing with the problem of imbalances in consumer surpluses. Instead, the rigged prices under regulation pave the way for rigged computations of consumer surpluses. As elaborate as the discussion of the issue of consumer surplus is in the FRA guidelines, absolutely no consideration is given for the loss of consumer surpluses experienced when funds are extracted for the financing of rail subsidies. The opportunity cost calculation used to allow for alternative uses of the subsidy considers only the financial returns of the cost of capital.

In the business world, the cost of capital is usually computed on the basis of what the firm would have to pay in the line of interest on bor-

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rowed money or earnings to equity of owner-supplied capital. Since the firm cannot capture consumer surpluses it can legitimately ignore them. Consequently, business finance has developed no methods for assessing the impact of consumer surplus in the cost of capital.

The FRA has borrowed the traditional business finance computation, but has distorted the outcome by applying consumer surplus considerations to only one side of the equation. Consistently employed, such a methodology would produce a false picture of the comparative returns of subsidized programs versus taxpaying programs. Followed to its logical conclusion, the FRA's approach would lead to the absurd proposition that social benefit could be maximized only when all economic activity is subsidized. Apprised of this situation, the FRA has promised to re-examine its premises. In the meantime, the procedures resulting in inflated social benefits as a consequence of rail subsidy will continue as before.

Avoidable Dislocation Costs

Confronted with the ineluctable fact that economic progress entails the birth, life, and *death* of individual business entities, the FRA has postulated that some inefficiency results from the market's lack of consideration for certain sunk costs. Resources may completely lose their value due to rail line abandonment, says the FRA. For example, a coal mine relying upon rail service could become worthless if abandonment occurred. The example is an inversion of the typical cause and effect relationship, i.e.: because the mine can no longer produce at a profit given the costs of its inputs, including the cost of transportation, it can no longer justify the cost of that transportation. Shifting these costs to the general taxpayer is hardly a rational answer to the scarce resource allocation problem.

The FRA's contention is that a needless shifting of production facilities will lead to avoidable disruption costs. The FRA says preventing factories, farms or commercial enterprises from losing value as a result of the loss of service is less costly than having to re-establish these activities in other locations. Such an outlook, universally applied, would prevent the relocation of any business activity. It should not be surprising to learn that a bill to inhibit business relocation has been introduced in Congress.

Once again, though, this line of argument contradicts the evidence. If the cost of relocating or closing down were greater than the cost of sustaining rail service, the affected firms should be willing to pay higher rail rates. Generally, this is not the case, although there is some

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truth to the contention that regulation prevents the payment of higher rates.

Pressed to the wall with the evidence of shipper unwillingness to pay higher rates or to fork over a subsidy, the FRA argues that maybe the long run efficiency calls for relocation, but the short run costs may be too high. The lag time between a shut down operation in one locale and a new start up in another represents a dead loss due to idle resources. Unfortunate for this line of argument is the phenomenon of long range business planning. There may not be a hiatus between a closing at one location and an opening at another. In fact, as far as lag time is concerned, it would seem that the lapse of time between the collection of taxes and the disbursement of subsidies with all the red tape that typically accompanies government programs would make a case for disruption in other parts of the economy preceding the rescue of a local rail line from abandonment. So, as far as short run costs are concerned, the local rail assistance program would appear to increase, rather then decrease, the net social losses.

Untenable Working Assumptions

The FRA's favorite cost/benefit analysis (at the time of this writing) was one in which every factor, save one, was held constant. The state performing the analysis was able to announce triumphantly that the proposed rail project was justified because the cost of switching to trucks exceeded the cost of the subsidy. On the route to reaching this conclusion the following assumptions were made: (1) the demand for transportation is not affected by its price; (2) revenues are a function of costs, i.e.: if we can forecast operating expenses we can add a mark-up for profit and have an estimate of future revenues; (3) public expenditures produce values in excess of their cost, but private expenditures do not; (4) taxes have no impact on private decision making; and (5) the "real" cost of capital is in the 3-5 per cent per year range.

To any reasonable person, these simplifying assumptions are clearly untenable. There is no real world instance in which such assumptions could even approach the bounds of reasonableness. The explanation for finding such an absurd methodology for assessing the cost/benefit relationships of government funded projects combines a mixture of academic naivete, bureaucratic cynicism, and plain incompetence.

The draft of cost/benefit instructions passed out by the FRA is replete with the classic equilibrium models one experiences in introductory economics courses. Neatly drawn demand curves intersecting marginal cost curves yield tidy

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triangles of values to be calculated. Persons attempting to compute a cost/benefit ratio are admonished to begin by calculating what prices would be under perfectly competitive conditions.

The use of the tools of academic exposition in such a simplistic fashion cannot be expected to lead to superior, or even adequate, investment decisions. Two unfortunate components of the economic environment in the real world are the ruling principles of uncertainty and change. Demand curves are not known. Data collected to estimate demand curves may give estimates of what demand was at some point in time. However, such information is ancient history in terms of the status of demand in current and future markets. To structure the decision aiding cost/benefit procedures along these lines is an act of sophomoric economic naivete that, at best, will result in self-delusion.

A worse consequence than self-delusion is the element of public deception involved in the whole process. The procedure has been made inordinately complicated. Unfamiliar terminology makes it difficult to determine what the FRA is talking about. Where most investment analysis procedures refer to streams of cash flow, the FRA uses the terms "benefits" and "disbenefits." Presumably, this changed terminology is necessary because of the non-cash flow benefits or costs resulting from the public investment, but no glossary of unfamiliar terminology accompanies the guidelines.

An Unreal World

The creation of the concept of "transportation efficiency" is a procedure that is virtually guaranteed to produce benefits so large that almost any subsidy could be justified. It is here that the assumption of the insensitivity of demand for transportation to the price of transportation comes into play. Starting with the not unreasonable proposition that the demand for transportation may be relatively inelastic, an FRA endorsed simplifying assumption of an elasticity of zero, opens the door to the outrageous conclusion that all the freight not moved by rail will be moved in some alternative manner. With the quantity of freight moved taken as a constant, ridiculously high savings from rail subsidies can be "demonstrated," particularly in the movement of heavy raw materials. Unmentioned in such a comparison are the problems encountered when the cost of alternative transportation exceeds the total value of the delivered freight. In the real world no firm could afford to view the quantity of freight to be moved as an unalterable given, especially if the cost of a second-best transportation option exceeds the recoverable revenue

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from the delivered price of the commodities shipped.

The simplifying assumption usually is justified on the grounds of conservatism. That is, even though the numbers produced may not reflect actual decisions, they at least reflect a lower limit of the costs entailed in a course of action. In the case of rail abandonment it is simply assumed that the cost of not transporting the potential freight would be greater. The example given is that of a body of ore whose value would go to zero if it were not transported.

The fatal flaw in this whole approach is that it cannot take cognizance of the market's response to the various costs involved in producing and transporting goods. Left to its own devices, the price system of the free market would determine the least costly alternative. The calculations based upon FRA approved methodologies will produce distorted values which can serve no useful allocation role. Participants in the program are unofficially counselled to adopt procedures and assumptions which will give their projects the best chance of being funded. The purpose of the program is to shovel money out to the participating governmental units and railroads. The better the cost/benefit figures look, the easier will be the disbursement of funds.

Lest we attribute more sinister intent than is warranted to the apparent machinations of the railroad bureaucracy, it must be pointed out that a large measure of the blame for the distorted methodology is likely the result of pure incompetence. What else could explain an estimate of future rail revenues based upon a simple cost-plus formula? The genesis of the entire rail subsidy program could be found in the phenomenon of rail costs rising faster than rail revenues on specific branch lines. If it were possible to maintain a constant relationship between rail revenues and costs by use of the cost-plus formula, the whole FRA program would have no rationale for its existence.

Ignoring the Risk

The selection of a so-called real rate of interest for the purpose of considering the opportunity cost of rail subsidies is another convincing piece of evidence for the incompetence hypothesis. The FRA suggests that current interest rates include a premium for inflation and that unless the whole future streams of benefits and disbenefits are to be adjusted for inflation, a real cost of capital rate of between 3 and 5 per cent should be used. Aside from the fact that there can be no assurance that both revenues and expenses will be equally affected by inflation, the element of risk is completely overlooked.

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The notion that government investments can ignore the element of risk has a curious origin. In the world of finance, government debt instruments are considered to be essentially risk-free in terms of safety of principal and interest payments. The fact that a government bond may be secure for the holder of the bond says absolutely nothing about the risks of the uses to which the funds will be put. The investment decision in the rail subsidy program is no different from any other use of funds—public or private. Funds committed to the program will be converted into irretrievable capital goods or paid out in operating expenses. The risk that funds thus committed may not earn a return sufficient to justify such a conversion is no less than for any other use of the funds. Neglect of this risk factor, because government can borrow money more cheaply because the debt instruments are risk-free to the holders, is clearly a demonstration of ineptitude.

A final example of incompetence is the failure to consider the indirect benefits of alternative uses of scarce resources when computing the opportunity cost of rail subsidies. The entire rail assistance program is contingent upon the concept that benefits not reflected in the price system can be preserved via subsidy. This is the rationale for rejecting the market's indication, as exemplified in the net loss position of a particular rail branch line, that resources can be put to better use elsewhere. Thus, the FRA guidelines lay out elaborate procedures for calculating consumer surpluses and indirect community benefits that are to be preserved by subsidizing the rail service. The opportunity costs of uses of scarce resources for other than rail subsidy include *only* the prospective financial returns of those uses. The consumer surpluses and indirect benefits of any use other than rail subsidies are completely ignored.

Apprised of this imbalance in their methodology, the FRA's only response was that they just hadn't thought of it. Since it is the contention of the FRA that the program is increasing the net social benefit to the nation, what possible excuse can there be for the failure to even think of the ramifications of the diversion of scarce resources from other uses? Personal experience inclines one toward the hypothesis that incompetence is the most likely explanation.

The Impotence

Those who look to the enactment of mandatory cost/benefit analyses as a check on the excesses of government had better not place much reliance upon it. The "state of the art" in government circles would seem to indicate that cost/benefit

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analyses will not perform as some are wont to claim.

The fundamental issue centers on the appropriate mechanism for the efficient and equitable allocation of scarce resources. Thus far, no mechanism superior to the market has been discovered. The assertion that the price system is ineffective in instances such as local rail service because of government rate regulations cannot serve as an adequate reason for ignoring market mechanisms. The proposition that we must resort to a less effective allocation device because of a prior government intervention is preposterous. Rail rate regulation is not an irreversible fact of nature. Treating it as if it were can only make things worse.

The assertion that there are externalities that are not reflected in the price system may be true, but it cannot serve as a blanket endorsement of nonprice allocation schemes. The rising suspicion that government interventions may be reducing the net general welfare has produced well-meant concern. Advocates of continued and expanded interventions are pressed to prove that these interventions are producing net benefits. The bureaucracy has been badgered to come up with cost/benefit evaluations of government programs that can prove the worth of these interventions. One should, then, not be surprised that such methodologies as are adopted will generally "prove" the worth of government intervention.

The most unfortunate consequence of the cost/benefit charade is the ultimate cost of the inevitable misallocation of resources. The only assured result of subsidy programs is a lower return on investment. Resources will be diverted to less productive ends. Over time, the effects of compounding this lower return will mean much lower standards of living *and much lower social benefits as well.* This is hardly the result advertised or anticipated by proponents of government intervention for the purpose of promoting the social welfare.

P. M. Fox

IDEAS ON LIBERTY

EVERY person who is opposed to unrestricted welfarism thus has a public duty to say so, and there is no place where the subject does not belong: in homes, churches, social groups, business. Every one of us has freedom and perhaps survival at stake in calling a halt to the fatal combination of welfarism-bureaucracy-inflation. To sit back and not bother means to lose by default.

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Conservatively Speaking

In a delightful foreword to Rene Wormser's *Conservatively Speaking* (Wayne E. Dorland Co., Box 264, Mendham, New Jersey 07945, 323 pp., $10.00), Bill Buckley says the author does much of his writing, so to speak, in the subway. Since Mr. Wormser rivals Albert Jay Nock in the art of relevant quotation, it is obvious that a library as well as a subway seat has been involved in the creation of a remarkable book. What Bill is trying to tell us is that Mr. Wormser, a lawyer and estate planner, is the most diligent man alive. Like Anthony Trollope, he can write anywhere. *Conservatively Speaking* is a Herculean effort to understand every possible aspect of our contemporary muddle, both domestic and foreign. A President of the United States, seeking proper counseling on ways to meet the manifold problems of the republic, could substitute Rene Wormser for an entire cabinet without fear of losing anything in the exchange.

There is art in the composition of Rene Wormser's book. He begins by telling us how we were misled by liberalism. By this he means contemporary liberalism, not the classical kind. The liberal, he tells us, "shows little faith in the capacity of the individual to take care of himself." It follows in the liberal's mind that Papa State must know best: hence the contemporary liberal's addiction to controls and the quasi-socialism of paternalistically determined transfer payments. Mr. Wormser quotes from some of his own past writings to make his points. He also quotes Milton Friedman.

Mr. Wormser wisely follows his chapter on liberal misleading with

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discussions of the liberal suborning of education and liberal penetration and control of communications. The quotations come thick and fast here. So do the names. Back in 1905, which was long before Tom Hayden and Jane Fonda started to preach the virtues of "industrial democracy," Jack London and Upton Sinclair created something called the Intercollegiate Socialist Society, which later became the League for Industrial Democracy.

A Collectivist Bias

The worst of it was that Jack London and his Fabian socialist friends infected our professional educators, from John Dewey at Columbia Teachers College to the authors of the Carnegie Corporation's report on education for the "new age of collectivism." The collectivist bias of George Counts and William Kilpatrick, both of Columbia University, has been transmitted to the National Education Association, whose Political Action Committee on Education has a terrifying political clout. Educators with a leftist outlook have trained a whole generation of journalists and TV and radio commentators. The poisoning of the wells of thought has been antecedent to the legislative debacles which Mr. Wormser next considers.

Mr. Wormser deals with "our disastrous inflation" in a chapter that neatly reconciles the thinking of the Friedmanites, who contend that inflation is a purely monetary phenomenon, with the reasoning of Lawrence Fertig, who thinks that the satisfaction of the demands of the big labor unions has something to do with the case.

The Friedmanites are right when they say that it is the politicians who start the printing presses running at the Treasury. But Wormser observes that there are "inflation propellants" (a most felicitous phrase). When labor strikes for wage increases that are in excess of productivity increases, it forces the politicians to give an inflationary boost to the money supply in an attempt to absorb higher prices. Insistence on the government's duty to create full employment is an obvious "inflation propellant." So are government interventions of all sorts. Inflation is admittedly a monetary phenomenon, but the politicians would not seize upon it if what Wormser calls the "propellants" were not at work in society.

Wormser thinks a basic "propellant" to inflation was set in motion when we abandoned the gold standard. He quotes von Mises: "The eminence of the gold standard consists of the fact that it makes the determination of the monetary unit's purchasing power independent of the measures of governments. It wrests from the hands of the

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economic Tsars their most redoubtable instrument." True enough, if budgets were balanced, inflation might be contained without going back to gold convertibility. But without the discipline supplied by a fixed standard of value, the temptation to inflationary spending is too strong.

Mr. Wormser's estate planning specialty enables him to discuss our "egalitarian" tax system with both wisdom and justified passion. Our tax code so thoroughly penalizes savers that it is a miracle that the economic system expands at all. In taking money away from producers, our welfare state shrivels the very tax base that is needed to sustain cradle-to-grave security.

Money paid into the social security fund is dissipated, and taxes must be substituted for the income that should be coming from the investment of State-collected insurance funds. We are now bungling our energy problem by failure to let the market work. And economic hopelessness has something to do with the wave of crime, particularly among those who can't find employment because of unrealistic minimum wage legislation.

Foreign Policy

On top of our domestic bungling, we have had a disastrous foreign policy. Mr. Wormser thinks we have permitted ourselves to be used by nations more experienced than we. We rushed to pull the Allies' chestnuts out of the fire in World War I. Woodrow Wilson could not prevent a thoroughly bad peace. His League of Nations could not correct the mistakes of Versailles, and Hitler was the inevitable result. Franklin Roosevelt did no better than Woodrow Wilson—the World War II settlements let Joe Stalin move deeply into Europe. We forswore our own legal heritage when we stooped to Bill of Attainder justice at Nuremberg. This does not excuse the seizure of American hostages by the Iranian "students." But Nuremberg, in any long-term perspective, means that we do not come into any international court with clean hands.

Wormser is rightly critical of our policy of fighting no-win wars. He thinks we would do better without the United Nations. The U.N. has acquiesced in the separation of East and West Germany. It remained inert while the Berlin Wall was being built. It did not protest the invasions of Hungary and Czechoslovakia by Russian tanks. It has done nothing about Fidel Castro's Hessians in Africa. But it did take action against Rhodesia, a country that threatened no one.

All through the period of detente we have fooled ourselves. The loss of Iran has left us vulnerable in the oil-bearing Middle East. The West

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needs the oil of Iran and Saudi Arabia—but in pursuing detente the West has allowed itself to fall behind in the armaments needed to defend the oil routes.

In spite of everything Mr. Wormser retains some optimism; after all, we have had a "tax revolt," at least on the Pacific coast. Rene Wormser is confident enough in his own powers to feel that his own estimable book is not a "vain and futile exercise."

WILL CAPITALISM SURVIVE? A CHALLENGE BY PAUL JOHNSON WITH TWELVE RESPONSES
edited by Ernest W. Lefever
(Ethics and Public Policy Center, 1211 Connecticut Avenue, N.W., Washington, D.C. 20036)
69 pages ■ $3.00 paperback

Reviewed by Bruce Alan Johnson

FEW people know that we could fit 2½ Americas into the massive continent of Africa, but that wasn't hard for me to believe after a three-month safari through many of its countries. And throughout this 1979 business travel, one phenomenon stood out boldly in almost every one of the countries I visited: the cities of the developing nations of Africa are crowded beyond anything imaginable to comfortable Americans. These cities grow by thousands each year, as people pour in from the jungles and outlands in search of employment and a better way of life. Instead of finding pots of gold, however, they invariably find poverty worse than they left behind, starvation, epidemics, massive unemployment—and crime.

Why aren't these striving peoples finding the employment that one would expect to find in countries developing industries and international trade? That, too, was apparent. In almost every case, the development of a healthy, growing, free economy was held in check by a central government operating either out of raw fear or oppression by design. In the latter case, these central governments decry the "poisons of the West," when many of them know only too well that with the inception of industrial capitalism in the 1780s, wealth, productivity, and the economic well-being of the individual has risen unlike any period in the history of mankind.

But, as the distinguished British historian Paul Johnson notes in this impressive little book, "most governments fear and resent" this never-ending one-way flow of people from countryside to city. Indeed at the very same time they view the free market system as a *force,* and a force that threatens the power of central governments. And yet, Johnson points out, "There are now

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literally scores of million-plus cities all over the Third World," and many of these cities have become havens for individuals seeking to raise their standard of living and find greater freedom of choice (cities and city-states like Hong Kong, Singapore, Taiwan, Mexico City, Istanbul come to mind), but only when the central governments agreed to let the market mechanism function unhampered by restrictive legislation or wealth-skimming policies of confiscation. After noting that short of evacuating these developing cities by force or terror, nothing will stem this human flood, Johnson observes: "There seems to be an almost irresistible urge in human beings to move away from the status society to contractual individualism, the central feature of industrial capitalism."

Beginning with an eleven-page essay bearing the book's title, the publishers have chosen to use what was presented by Johnson as a speech to Bermuda businessmen in 1978 as a springboard for responses from twelve other social figures whose views range from close support for the free market viewpoint to outright castigation of the free way of life. Every now and then there comes along a book in the freedom literature which actually does stimulate some hard thinking on the collectivist assaults on the free-market way of life. *Will Capitalism Survive?* is one of those books, and its 69 pages are veritably packed with provocative commentary designed to sharpen the skills of that natural aristocracy of mankind who believe in and practice a way of life which denies the omniscience of government guidance.

Mr. Johnson sees five principal threats to capitalism's future: the intellectual challenge of collectivist-oriented universities and academies; an irrational passion-ridden ecological movement neglecting such crucial factors as social costs; the unchecked growth of "big government" and unionism; and the ever-present threat of Soviet encroachments wherever nations are poorly armed or inclined to accept Soviet overtures of "aid."

Some of the respondents are thinkers of clarity: Berkeley's Paul Seabury; First National Bank of Chicago's (and *National Review's*) Alan Reynolds; American Enterprise Institute's Michael Novak; Hudson Institute's Herman Kahn; and Congressman Jack Kemp. And indeed it must be said that many of their arguments are barbed attacks on some of Johnson's points. (Johnson's claim, for example, that the 1974 birth of the OPEC cartel spells the end to cheap energy in America is deftly refuted by Alan Reynolds.) But these differences of opinion merely serve to further clarify and refine the excellent

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points made by Paul Johnson in one of the most readable economic essays I've ever seen.

For decades *The Freeman* has articulately shown why it is that social improvement can begin only with the improvement undertaken by the *individual*—you and I—in our daily lives. The Ethics and Public Policy Center has rendered a fine service in this direction by offering a challenge and twelve responses which examine the need for the preservation of economic freedom, not least because only under a capitalist system can man maximize his own potential for achieving good, and hence that of his society.

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